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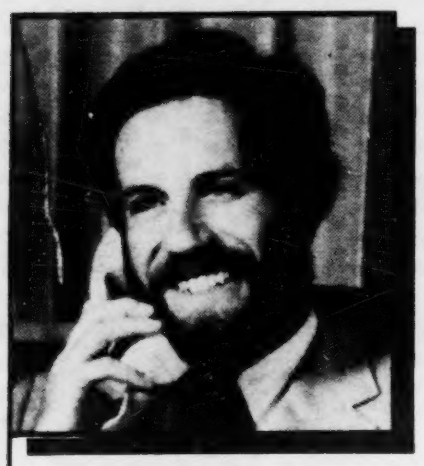
FDA approves aspirin heart therapy—p. 55

Special report:
Wholesale Drug Industry Annual Report—p. 29

DRUG STORE NEWS®

Vol. 7/No. 24 **Serving chains, wholesalers and high-volume independents for 56 years.** Published by Lebhar-Friedman Inc. November 11, 1985

FoxMeyer to acquire Ben Franklin, Coast to Coast



'The wholesale/ franchise business is one that we understand. Your retailers are a part of you, and when they grow, you grow.'

Richard Bard
president

'Ben Franklin has a lot of tired old stores. But a good Ben Franklin is like an Eckerd or Walgreens without a pharmacy.'

Bill Tauscher
chairman and ceo

Part of Household Merchandising deal

By Bruce Buckley

AURORA, Colo. — FoxMeyer, the country's third largest drug wholesaler, will acquire the wholesale/franchise operations of Ben Franklin variety stores and Coast-to-Coast hardware outlets as part of its investment in the $700 million leveraged buyout of Household Merchandising.

A subsidiary of Household International Inc., Household Merchandising also includes Vons Supermarkets and T.G. & Y. general stores. Last year the merchandising subsidiary generated net income of $49.6 million on sales of $5.4 billion.

FoxMeyer's partners in the leveraged buyout include members of the merchandising unit's management and Donaldson Lufkin & Jenrette Securities Corp., the New York investment banking firm. FoxMeyer's investment is being financed by bank debt.

The wholesaler's takeover of Ben Franklin and Coast-to-Coast, along with other projected growth, will propel the company to at least $2.7 billion in sales next year, according to Richard Bard, FoxMeyer's president.

In contrast, the nation's top two drug wholesalers, McKesson Drug Co. and Bergen Brunswig, will generate $2.8 billion and $1.9 billion, respectively, in wholesale drug sales during the current fiscal year. In the second quarter ended Sept. 30, FoxMeyer's net income increased 38% to $2.7 million on sales of $298 million, a gain of 85% over last year's comparable period.

Ben Franklin and Coast-to-Coast together boast more than 2,700 franchised outlets across the country. FoxMeyer sees the acquisition as an opportunity to penetrate new

Continued on page 68

Trump uses junk bonds to spin off 3 divisions

SEATTLE — The Trump Group, owners of Pay 'n Save Corp., is spinning off three divisions—Schuck's Auto, Lamonts and Bi-Mart—into Northern Pacific Corp., a newly formed Delaware corporation.

Northern Pacific Corp. will be capitalized by issuing $160 million in high-yield bonds. The offering is being managed by Drexel Burnham Lambert, perhaps the leading exponent of so-called "junk bond" financing.

These high-yield bonds, graded specifically as a speculative investment, will mature in 10 to 12½ years in $60 million, $50 million and $50 million amounts.

Why did The Trump Group go the "junk" bond route? A Trump spokesman said: "Because it provides more flexibility than an equity offering." A security analyst noted that "bonds have a fixed—rather than variable—rate, so it's a hedge against interest rates rising." Another source said Trump was unable to get financing any other way.

The remaining Pay 'n Save divisions will continue to operate under the Pay 'n Save corporate umbrella. These include Pay 'n Save Drug stores, Northwestern Drug (wholesaler), Ernst Home Centers and Yard Bird family shopping centers. Julius Trump,

Continued on page 70

The Rx Place
The Rx Place
FOR INCREDIBLE SAVINGS

The Stratford, N.J., unit opened last May.

Philly market gains second Rx Place unit

LEVITTOWN, Pa. — With its sights set on becoming a dominant force in deep discounting, F. W. Woolworth opened its second Rx Place in the Philadelphia market.

The new 17,000-sq.-ft. store is located in the Levittown Discount World Shopping Center, about 40 miles from the company's first Rx Place in Stratford, N.J., which opened in mid-May.

First-year sales of $6 million are projected for the new store.

According to Ken Colson,

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TE NEWS....LATE NEWS....LATE NE

APhA HAS TEMPORARILY AVERTED a mass walkout by members of its Academy of Pharmaceutical Scientists via an agreement postponing final action on its sweeping reorganization plan until early next year. In return, dissident APhA scientists delayed a vote on their "secession" proposal pending Dec. 31 recommendations from a new joint task force formed to resolve APS demands for "autonomy" from APhA.

Drug stores expand personal

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0023447C DR
MS .JEANNE LONG
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4520 EAST WEST HIGHWAY
BETHESDA MD 20814
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Coupon machine a hit at Genovese

Merchandising Focus

This is the first in a series of occasional articles focusing on new innovations in drug store merchandising and operations.

By Tim O'Brien

MELVILLE, N.Y. — The world of electronic in-store coupon distribution is now largely dominated by supermarkets, but in a recent test, Genovese demonstrated the concept could also be an effective marketing tool in high-volume drug stores.

In the first two weeks of an eight-week test, an electronic coupon machine dispensed 2,439 coupons in one Genovese location on Long Island, New York. The store redeemed 24% of those, a remarkably high rate, compared to the national average coupon redemption rate of less than 4%.

"Once the customers realize we have the machine and get used to using it, I expect the redemption rate to surpass 40%," said Don Gross, vp of marketing at Genovese. After two weeks, Gross said the chain decided to roll out the distribution of the machine to more of its stores, but because of the cost of each, about $20,000, it will be a while before any additional stores get the machine.

"The Coupon Connection," as the machine is called, is an ATM machine, converted to run on special software developed by PromoVision Video Display Corp. Genovese was part of the 25-store test conducted by the company, and was the only nonsupermarket retailer selected to participate.

At this time, supermarkets

Continued on page 70

NEWS IN BRIEF

Bill limits lie-detector test use

WASHINGTON — Chain drug industry lobbyists have scored a partial victory in their campaign to sideline pending Federal legislation to outlaw polygraph testing by employers.

Although the House Education and Labor Committee approved a bill sharply limiting the use of lie detectors to screen out dishonest employees, the panel agreed to a compromise amendment under which pharmaceutical retailers, wholesalers and manufacturers will be allowed to require workers to submit to polygraph exams in connection with "a reported theft or diversion of a controlled substance."

Passage of that provision represents only a "half-loaf" for NACDS and other drug industry critics of the pending polygraph ban who had hoped for an even broader, across-the-board exemption.

Allied sells freestanding Rx's

DETROIT — Allied Supermarkets has sold all but one of its freestanding Family Discount Drug stores and has, according to company sources, started testing an in-store pharmacy department in one of its Great Scott! supermarkets.

Last month, Perry Drug bought four of the drug stores, and has an option on the fifth. Allied plans to keep the sixth Family Discount Drug store, located in nearby Plymouth, Mich.

While Allied may not get back into the freestanding drug store business, it is looking at the possibilities of creating in-store pharmacies within its chain of 19 supermarkets. "We opened a pharmacy in one of our newly remodeled stores just three weeks ago as a test," said Coleman, "and we've been very happy with the results so far."

Rite Aid's prez names execs

SHIREMANSTOWN, Pa. — Rite Aid's president and chairman, Alex Grass, has announced a series of executive promotions within the 1,359-store drug chain.

Three senior vice presidents have been named: Frank Bergonzi, finance; Howard Diener, purchasing; and Roger Grass, merchandising.

Two have been named vice presidents: Jerry Cardinale, merchandising and Joseph Groelly, automated store systems.

In addition, eight have been appointed to the position of assistant vice president: Barry Criss, store planning; Marlin Fike, computer operations: Daniel Garber, Rack Rite division; Raymond McKeeby, store operations: Michael Morris, store planning; Alan Reid, store maintenance; Barry Sheaffer, MIS development; and Fred Wendte, pharmacy operations.

Kroger nets $45M in 3rd quarter

CINCINNATI — The Kroger Co. has announced a third quarter net of $45 million, on sales of $5 billion, compared to year ago figures of $39 million and $4.6 billion.

Lyle Everingham, Kroger Co. chairman, said the improved earnings in the latest third quarter resulted from the "continuing cost cutting efforts as well as the increasing impact of the company's merchandising programs.

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Vol. 7, No. 24 November 11, 1985

Chain operated deep discount drug stores

Company (chain parent)	Est. $ volume			Total stores		
	1985	1983	% chg.	1985	1983	% chg.
1. Drug Emporium *Columbus, Ohio*	$374M	$136M	***175%***	68	34	***100%***
2. F&M *Warren, Mich.*	168	98	***71***	21	14	***50***
3. Rock Bottom (Courtesy Drug)* *Port Washington, N.Y.*	125	48	***160***	25	12	***108***
4. Phar-Mor *Columbus, Ohio*	120	12	***900***	20	3	***566***
5. Marc's *Cleveland, Ohio*	100	80	***25***	4	3	***25***
6. Heartland (Supermarket General) *Edison, N.J.*	70	27	***159***	14	9	***55***
7. Sack 'n Save (Minyard's Food Stores) *Waco, Tex.*	56	0	—	8	0	—
8. Drugs for Less (Safeway Inc.) *Los Angeles, Calif.*	48	12	***300***	13	5	***160***
9. Drug World (SupeRx Drugs) *Cincinnati*	32	6	***433***	13	3	***333***
10. Drug Castle (Brown Drug) *Springfield, Ohio*	30	9	***233***	3	1	***200***
11. Howie's/Carnevale (Shoppers Drug Mart) *Toronto, Canada*	28	4	***600***	7	1	***600***
12. Drug Palace (Rite-Aid) *Shiremanstown, Pa.*	25	6	***317***	10	3	***233***
13. Warehouse Drugs (Mi-Lo Food Stores) *Fort Mitchell, Ky.*	21	15	***40***	8	7	***14***
14. Pathmark Super Drug (Supermarkets General)** *Edison, N.J.*	20	0	—	4	0	—
15. Freddy's (Melville Corp./CVS) *Woonsocket, R.I.*	20	9	***122***	2	1	***50***
16. Jax's (Fisher Foods) *Cleveland, Ohio*	18	14	***29***	2	2	—
17. Warehouse Way (Chatham Food Stores) *Detroit, Mich.*	18	15	***20***	7	7	—
18. Value Giants (Pay Less NW) *Wilsonville, Ore.*	18	0	—	3	0	—
19. Ike's (Malone & Hyde) *Memphis, Tenn.*	16	10	***60***	2	1	***50***
20. DOT (Wal-Mart) *Bentonville, Ark.*	15	0	—	2	0	—
21. Total Plus (Dart Drug) *Landover, Md.*	15	10	***50***	5	4	***25***
22. A. L. Price (Perry Drug) *Detroit, Mich.*	15	6	***86***	4	2	***50***
23. Cost Cutters (Community Distributors) *Somerville, N.J.*	15	14	***275***	5	1	***400***
24. Cecille's *Detroit, Mich.*	15	12	***25***	1	1	—
25. Bud's (People's) *Alexandria, Va.*	13	0	—	3	0	—

Mature deep-discount stores generate tremendous volumes

The following is the second in a series of articles on the growth of the deep-discount stores.

In talking to retailers who have specialized for some years in deep-discount drug stores, *Drug Store News* found, in fact, that there were only a handful of $30 million or $20 million stores. Marc Glassman, apparently, has both, one of his own Marc's stores in Cleveland and the Shulman's he acquired several years ago from Bernie Shulman's widow.

Several sources who have been involved in deep-discount drug stores for many years estimate that only about 25 of the 300 or so stores now open are doing more than $10 million. Only 75, they feel, are doing more than $6 million or $7 million. The rest, they estimate, are doing $6 million or less.

Of course, these estimates take into consideration that only about 25% of all the deep-discount stores now in operation are over five years old.

The established deep-discount drug operators have learned that it takes "about five years" for a deep-discount drug store to realize its maximum return. This estimate is for a good store in a good location with the right people.

Continued on page 7

FINANCIAL

Thrifty net income jumps 14.2%; sales up 8.1%

LOS ANGELES — The Thrifty Corp. reported that unaudited net income for the year ended Aug. 31 increased 14.2% to $31.9 million from $27.9 million last year.

Earnings per share rose to $1.60 from $1.40.

Sales for the year were up 8.1% to $1.40 billion from $1.30 billion a year ago.

Thrifty reported that its Trak Auto West operation, which it shares in a 50-50 partnership with the Landover, Md.-based Dart Group, continued to act as a drag on earnings.

The company said that the loss of Trak Auto and earnings of Crown Books Corp., of which Thrifty holds a 34% interest, combined to reduce Thrifty's 1985 pretax income by $1.8 million. Thrifty did not break out the results of the two operations, which are based on the equity method of accounting.

Another negative was the flattening out of 1985 comparable-store sales gains in the fourth quarter. For the year, comparable store sales which do not include stores opened in the past two fiscal years, were up 5.9%, but for the fourth quarter the gain was 4%.

For the fourth quarter, unaudited net income increased 9.4% to $8.4 million from $7.7 million in the same period last year. Quarterly earnings per share increased to 42¢ from 38¢.

Sales for the three months were $363.3 million vs. $338.1 millon a year ago.

The Trak Auto results also created a drag in the final quarter. Thrifty reported that Trak Auto and Crown Books combined to reduce the period's pretax earnings by $778,000.

Gray performance promising

CLEVELAND — Gray Drug Fair turned a 1984 third-quarter loss into a profit for the third quarter ended Sept. 30, 1985.

Commenting on the results, Johan G. Breen, chairman, president and ceo of the drug chains' parent company, Sherwin-Williams, said: "Gray Drug Fair's continuing refinement of merchandising and operations, resulting in profitability during the quarter, must be continued for the division to achieve its goal of showing meaningful improvement for the entire year."

In fiscal 1984, the drug store division reported operating profits of $82,000, down from $5.9 million in 1983.

Overall, Sherwin-Williams said that net income for the third quarter increased 15% to $29.1 million from $25.3 million in the same year-earlier period.

Fully diluted earnings per share rose to $1.25 from $1.10 last year.

Sales were up 5% $578.8 million.

		STOCK PRICE							TREND TO MARKET				EARNINGS/SHARE					P/E	DIVIDENDS			FINANCIAL POSITION				
		From 10/04/85 - 10/21/85							Price Trend (% per day)		Volume Trend (% per day)			Latest 12 Months vs Preceding 12 Months Change					Indicated Dvd. rate			Last Fiscal Year			Last Fiscal Year (Per Share)	
					Change		52-Week		Last 30 Days	Last 5 Days	Last 30 Days	Last 5 Days	Last Fiscal Year			5-Year Annual Growth Rate	Profit Margin	Latest P/E Ratio			Last X-Dvd. Date			Current Ratio	Long Term Debt	Common Stock Equity
Name	Symbol	High	Low	Close	Amt	Pct	High	Low						Amt.	Pct				Amt.	Yield		Revenue	Earnings			
-	-	$	$	$	$	%	$	$	%	%	%	%	$	$	%	%	%	-	$	%	-	$ Mil	$ Mil	-	$	$
Chain Store transactions																										
Am Stores	ASC	61.75	56.13	57.50	1.25	2.22	67.50	35.38	.19	-1.47	-.64	-13.39	5.71	1.67 S	42.0	34.0	1.5	10.2	.64	1.1	09-16-85	12118.8	185.5	1.2	37.93	21.40
Begley Co	BGLY	16.00	16.00	16.00	.00	.00	17.63	15.00	.04	-.10	4.45	66.67	1.26	-.07 Q	-5.0	3.0	1.1	12.1	.72	4.5	07-15-85	66.1	.7	1.7	13.77	18.84
Big B	BIGB	15.25	14.00	14.50	.13	.87	19.50	10.63	.12	-.53	-1.49	29.87	.68	.12 S	20.3	15.0	3.0	20.4	.00	.0	09-21-83	148.1	4.4	2.3	1.20	4.58
Drug Sys	DRGS	4.50	3.75	4.50	-.13	-2.70	6.13	3.38	-.46	3.30	2.65	-37.40	.35	-.12 Q	-24.0	NC	1.2	11.8	.60	13.3	05-09-85	104.7	1.3	3.2	1.13	6.18
Eckerd, Jack	ECK	31.50	28.63	29.13	-.88	-2.92	32.88	20.00	.21	-.74	4.03	-30.87	2.27	-.03 N	-1.4	2.0	3.3	13.5	1.04	3.6	09-09-85	2622.5	85.4	2.0	2.52	16.47
Fay's Drug	FAY	9.00	8.38	8.63	-.13	-1.43	13.00	8.13	.08	-1.24	-1.56	21.10	.62	-.22 S	-33.3	33.0	2.4	19.6	.20	2.3	09-23-85	366.7	8.7	1.8	1.65	4.28
Genovese Drug	GDX	10.50	10.00	10.13	-.13	-1.22	15.88	9.13	.15	-.58	-.55	2.72	1.03	.07 S	6.8	40.0	1.9	9.2	.20	2.0	09-24-85	220.3	4.1	1.7	2.06	5.73
Longs Drg Strs	LDG	28.38	24.88	27.75	2.25	8.82	31.13	21.31	-.12	.62	2.78	-1.90	1.88	.14 S	7.8	9.0	2.9	14.4	.72	2.6	08-27-85	1375.8	40.1	2.1	.00	12.23
Medicare Glaser	MGCO	4.75	4.25	4.50	.25	5.88	6.50	3.50	-.16	-.41	1.15	69.06	.05	-.47 Q	-100.0	NC	.2	NE	.00	.0	00-00-00	81.7	.2	2.2	3.58	3.52
Perry Drug	PDS	15.63	13.63	15.63	1.88	13.64	16.19	10.75	.18	.14	5.67	-24.44	.84	.09 N	11.0	14.0	2.1	17.2	.19	1.2	09-11-85	370.3	7.6	1.5	1.60	7.07
Revco Drug	RDS	29.13	25.13	28.63	2.38	9.05	29.13	22.50	.19	2.39	7.40	24.61	1.06	-1.61 Q	-63.9	-1.0	1.6	31.5	.80	2.8	08-19-85	2395.6	38.9	1.7	1.22	12.48
Rite Aid Corp	RAD	24.38	21.50	23.63	1.63	7.39	33.50	21.50	.06	.36	-2.05	-7.08	1.69	.13 S	8.2	9.0	4.8	13.8	.50	2.1	10-07-85	1445.7	69.9	1.9	2.02	8.58
Thrifty Cp	TFD	19.75	18.13	19.75	.88	4.64	22.88	18.13	-.07	.54	4.26	32.37	1.40	.24 N	18.2	15.0	2.1	12.7	.60	3.0	05-06-85	1299.3	27.9	1.5	4.46	7.72
Walgreen Co	WAG	27.00	22.50	26.13	3.13	13.59	30.25	20.00	-.01	2.68	.66	-8.24	1.39	.20 N	15.0	20.0	3.1	17.1	.50	1.9	11-05-85	2744.6	85.4	1.7	.87	6.76
Wholesaler's transactions																										
Bergen Bruns	BBCA	27.13	25.75	26.38	-.75	-2.77	32.38	20.50	-.58	.21	2.39	13.51	1.91	.34 F	21.7	16.0	1.0	13.8	.32	1.2	07-26-85	2434.9	24.2	1.6	1.08	11.11
Bindley Wstn	BIND	10.75	10.25	10.38	.13	1.22	15.00	9.25	.17	-.45	-9.04	-.35	.73	.16 S	25.8	23.0	.8	13.3	.00	.0	05-01-85	566.7	4.7	1.4	.08	5.46
Cardinal Distrb	CDIC	16.75	16.00	16.75	.25	1.52	18.50	10.91	.01	.51	-.53	-17.24	1.01	.17 Q	18.9	NC	1.2	15.7	.08	.5	10-08-85	320.0	3.7	1.7	.94	8.85
Durr Fillauer	DUFM	11.00	10.00	10.00	-1.00	-9.09	15.25	9.81	-.75	-.70	.92	-41.63	.74	.13 S	19.1	15.0	1.7	12.3	.14	1.4	07-01-85	341.7	5.8	2.3	1.21	6.05
McKesson Cp	MCK	47.25	46.13	47.00	.25	.53	50.00	37.00	-.01	-.02	.04	-10.59	3.60	-.07 Q	-1.9	-1.0	1.3	12.8	2.40	5.1	08-27-85	4887.1	65.0	1.5	12.99	30.40
Foxmeyer Cp	FXM	24.25	23.00	23.75	-.25	-1.04	29.75	21.00	-.32	.09	2.42	-1.40	1.56	.16 Q	11.3	25.0	1.3	15.1	.00	.0	00-00-00	717.1	9.0	2.8	17.31	16.51
Ketchum	KCH	21.88	17.38	20.63	2.50	13.79	22.97	13.47	.87	1.25	9.02	3.46	.56	-.03 Q	-4.9	NC	.2	35.6	.00	.0	09-23-85	273.7	.6	1.4	7.87	7.52
Owens & Minor	OBOD	15.88	15.25	15.25	-.38	-2.40	16.63	8.00	-.06	-.66	-2.45	47.35	.95	.20 S	22.5	15.0	1.2	14.0	.28	1.8	09-10-85	306.7	3.6	3.0	5.35	8.54
Manufacturer's transactions																										
Abbott Labs	ABT	58.00	52.88	57.00	1.88	3.40	60.00	38.63	-.03	.43	.76	5.53	3.34	.52 N	16.3	17.0	13.0	15.3	1.40	2.5	10-08-85	3104.0	402.6	1.9	3.91	13.33
Am Home Prod	AHP	57.88	54.75	56.25	-.50	-.88	66.88	48.00	-.22	-.86	2.56	12.61	4.39	.26 N	6.0	11.0	15.1	12.3	2.90	5.2	05-07-85	4485.5	675.6	3.4	.26	13.74
Baxter Travenol	BAX	13.75	12.50	13.63	1.13	9.00	16.88	11.75	-.20	.14	1.81	-5.42	.21	-1.06 N	-82.8	-25.0	1.6	61.9	.37	2.7	09-09-85	1800.4	29.0	1.6	1.46	7.83
Block Drugs Co	BLOCA	39.00	39.00	39.00	.00	.00	40.50	26.22	-.06	-.13	-2.19	-82.69	3.48	.36 Q	11.1	11.0	10.5	10.9	1.00	2.6	08-27-85	247.8	25.9	2.4	3.28	22.47
Bolar Pharm	BLR	14.63	12.50	13.88	-.13	-.89	22.63	11.25	.09	.05	-.63	-20.89	.61	.13 S	22.8	23.0	18.2	19.8	.03	.2	08-06-85	29.1	5.3	7.5	.00	3.70
Bristol-Myers	BMY	58.88	53.63	56.25	.63	1.12	66.50	47.25	-.14	-.60	.09	-10.24	3.45	.41 S	12.7	14.0	11.3	15.4	1.88	3.3	09-30-85	4189.4	472.4	2.5	.75	15.63
Carter-Wallace	CAR	40.13	36.50	37.00	-3.38	-8.36	46.63	24.75	.53	-1.66	.37	30.41	2.66	.38 Q	15.3	20.0	5.9	12.9	.60	1.6	11-01-85	348.8	20.7	2.2	1.53	23.37
Forest Labs	FRX	24.50	23.13	23.88	-.13	-.52	32.50	12.13	.09	-.62	-4.48	-36.93	.73	.22 Q	39.3	14.0	17.4	30.6	.00	.0	01-14-83	24.1	4.2	4.5	.22	5.90
ICN Pharm	ICN	10.88	9.75	10.38	.50	5.06	12.25	8.25	.48	-.80	-.25	-1.60	.00	-.09 S	-47.4	NC	1.6	NM	.00	.0	00-00-00	44.8	.7	3.0	2.43	4.50
Key Pharm	KPH	9.25	8.00	8.25	-1.25	-13.16	12.75	8.00	-.83	-1.73	1.32	54.67	.61	-.04 S	-6.7	57.0	14.6	14.7	.20	2.4	09-09-85	151.1	22.1	3.4	2.52	1.60
Lilly Eli Co	LLY	90.63	86.75	89.88	.50	.56	90.63	60.13	.18	-.20	1.00	-18.26	6.73	.48 S	7.4	9.0	15.8	12.8	3.20	3.6	08-09-85	3109.2	490.2	1.7	1.63	31.04
Lee Pharm	LPH	7.88	6.13	7.00	.63	9.80	9.63	2.13	.56	1.39	6.04	6.93	.13	.38 N	NE	NC	6.2	29.2	.00	.0	00-00-00	8.1	.5	3.0	.20	1.73
Marion Labs	MKC	36.50	31.75	35.38	1.25	3.66	39.75	19.00	.14	-.55	-1.80	-26.13	.94	.32 F	51.6	34.0	12.2	37.6	.28	.8	09-16-85	295.7	36.2	2.1	.00	4.17
Merck & Co	MRK	114.38	106.38	112.63	6.00	5.63	117.75	84.50	-.05	.48	-2.34	-3.84	6.71	.63 S	9.9	5.0	13.8	16.1	3.20	2.8	08-30-85	3559.7	493.0	2.0	2.48	35.29
Morton Thiokol	MTI	34.25	31.75	33.00	.75	2.33	38.00	25.25	.04	-1.13	-.31	2.51	2.50	.29 Q	12.8	21.0	6.7	12.9	.64	1.9	08-26-85	1832.3	122.8	1.8	3.25	15.00
Mylan Labs	MYLN	15.25	13.50	15.00	-.13	-.83	26.00	11.38	-.50	-.27	-1.19	-19.42	.52	.38 S	115.2	64.0	23.3	21.1	.05	.3	02-19-85	53.6	12.5	5.9	.09	1.22
Newport Pharm	NWPH	11.88	9.75	11.63	1.75	17.72	13.75	5.38	.29	1.99	-.59	2.48	.05	.15 Q	NE	NC	6.7	NE	.80	6.9	05-23-85	9.0	.6	3.2	.21	.96
Par Pharm	PARP	17.00	15.00	15.00	-2.00	-11.76	23.25	8.50	-.18	-2.90	-1.43	32.52	.47	.09 N	22.0	NC	16.5	30.0	.00	.0	00-00-00	17.0	2.8	3.3	.00	1.84
Pfizer Inc	PFE	46.38	43.75	45.25	-1.50	-3.21	53.75	36.75	-.12	-.52	1.19	-19.52	3.08	.39 S	13.5	15.0	13.2	13.8	1.48	3.3	07-26-85	3854.5	507.9	2.3	2.10	15.45
Reid Prov Labs	REID	4.38	4.00	4.25	.00	.00	6.63	2.88	-.37	1.64	-2.05	29.29	.13	.00 F	.0	28.0	6.0	32.7	.04	.9	12-10-84	16.6	1.0	3.1	.02	.92
Robins, AH	QRAH	9.88	7.38	9.75	2.25	30.00	24.38	5.50	.66	1.67	2.88	37.10	-18.44	-20.13 S	-100.0	NC	-73.0	NE	.00	.0	11-19-84	631.9	-461.6	1.7	.47	-5.23
Rorer Group	ROR	46.75	40.75	42.50	-4.38	-9.33	47.00	24.00	.23	-.13	-.62	9.23	2.08	-.03 S	-1.4	5.0	8.5	20.4	1.12	2.6	08-05-85	522.1	44.3	1.9	2.18	11.07
Scherer RP Co	SCHC	13.25	12.25	12.63	.00	.00	13.50	8.63	-.08	-1.38	.30	-30.09	-.43	-.96 Q	-100.0	NC	-2.0	NE	.32	2.5	09-11-85	167.4	-3.4	1.7	4.07	9.72
Squibb Corp	SQB	70.88	67.63	70.63	1.38	1.99	72.88	48.63	.14	-.02	-1.07	-8.35	3.68	.39 S	11.2	18.0	10.5	18.3	1.76	2.5	08-12-85	1886.0	197.2	2.3	3.74	24.87
Sterling Drug	STY	37.13	33.75	34.50	.00	.00	37.13	26.25	.56	-.92	4.38	-17.23	2.37	.14 S	6.1	4.0	7.8	14.1	1.20	3.5	08-08-85	1827.3	143.4	2.6	1.32	15.34
Syntex Corp	SYN	67.50	63.88	66.50	2.63	4.11	67.50	45.25	.21	.18	.00	-28.05	4.65	.57 F	14.0	16.0	15.8	14.3	2.40	3.6	11-12-85	948.5	150.0	2.1	5.36	18.81
Thompson Med	TM	15.38	14.75	14.75	-.50	-3.28	18.38	13.25	-.19	-.27	3.32	41.99	2.20	-.67 S	-30.7	22.0	10.8	9.8	.40	2.7	09-24-85	197.2	21.2	4.3	.00	7.09
Upjohn Co	UPJ	123.00	108.75	116.75	3.75	3.32	123.00	61.75	.37	-.02	1.13	-2.31	5.67	-.61 S	-10.1	.0	8.0	21.6	2.80	2.4	09-27-85	2179.1	173.3	1.7	12.47	37.00
Warner-Lambrt	WLA	37.75	33.75	36.75	-1.50	-3.92	46.50	31.88	-.36	.18	3.69	-35.24	2.81	.28 S	10.4	6.0	7.1	12.4	1.48	4.0	08-05-85	3166.7	223.9	1.7	6.47	18.18
Zenith Labs	ZENI	21.50	18.00	20.75	1.25	6.41	29.50	5.25	.23	.99	-1.49	-9.72	.28	.44 S	244.4	85.0	7.7	33.5	.00	.0	06-19-85	37.5	2.9	2.6	.27	1.99

All data is based on sources believed to be reliable, but its accuracy is not guaranteed. Every effort will be made to correct errors, when discovered, in future issues.

Footnotes:

NA - Not Applicable
NC - Not Calculable
NE - Negative Earnings
NM - No Meaningful Figure
Q - First Quarter
S - First 6 Months
N - First 9 Months
F - Fiscal Year

Data and Table Prepared by Media General Financial Services, Inc., Richmond, Virginia 23219

Location is key for deep-discount stores

Continued from page 2

These same established operators also say that in their "good stores," they can break even at between $2 million and $3 million, but there are others, also good operators, who'll put that estimate at between $4 million and $5 million.

Today's deep-discount operator is functioning on a development tract they describe as "vastly different" from the one confronting the Shulman's and the Cohen's 20 to 30 years ago.

In those days, sources say, the most profitable way to establish the business was to open the store in a good location, stock it with basic consumables at highly attractive prices, make it "fun" and exciting to shop and wait for word of mouth to build business.

Today, sources say they can't afford to wait for word of mouth to get things going. They also can't afford to open just one or two stores and hope to maximize their return on investment within an acceptable stretch of time.

Instead, today's deep-discount operators are finding that they have to advertise their stores to bring in the business and that they frequently have to cluster the stores in groups of four, six, eight, 12 and more to maximize purchasing and advertising economies. They also have to buy a lot sharper because as they invade a new market, the competition fights back much more aggressively than anyone ever did against the Shulman's or Fred and Margaret.

Price of notoriety

"When F & M was young," says one source, "that first store, no one ever bothered with it. Today if an F & M or a Drug Emporium or a Drug Palace or an Ike's or a Bud's comes into town and puts up a sign: Revlon, 30% off; Timex, 30% off, everyone else does the same. The K mart does it, the drug stores do it. There are more and more people getting down to your competitive level and the price spread isn't what it used to be."

Necessity of advertising

One of the most appealing aspects of the early deep-discount drug store concept was that such stores were not burdened with advertising costs. But today most of the major deep-discount drug companies do double truck advertising in their local papers. Many also do radio and TV ads, and SupeRx managers of Drug World in the St. Louis market go out of their way to pepper local condominium communities and apartment house complexes with copies of their latest ad spreads. Not only is that advertising, but it's advertising with a personal touch that the managers report their apartment dwelling customers say they appreciate.

Location nurdles

In addition to additional advertising costs and mass expansion, today's deep-discount drug store operator also has to worry about finding convenient locations in populated markets at affordable prices.

Failure to find such locations has resulted in stores that can only be described as ghost towns. From St. Louis to Dallas, there are stores today that are located in marginal strip centers, without any other major retailer as a co-anchor, with poor signage, little visibility from the road, poor access and frequently surrounded by competitors closer to the major population source and generally not too much higher in price.

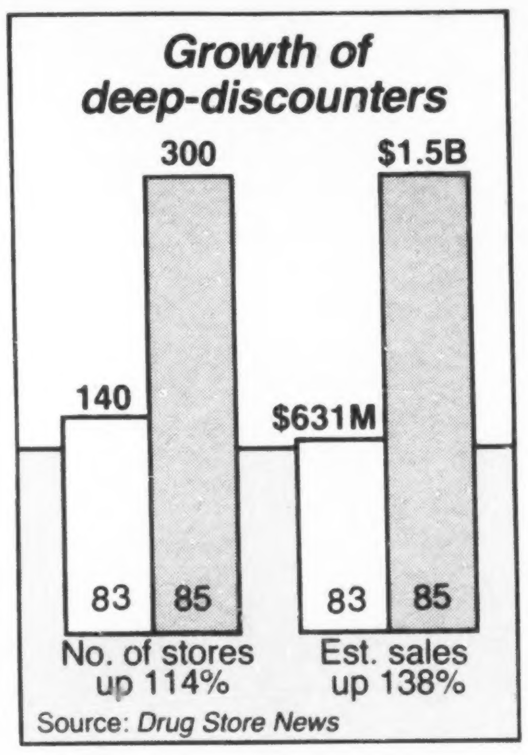
The other frequent scenario is for a store to have a good location in a major mall, with good anchors, fine visibility and access, but burdened with 30,000-sq.-ft. plus stores and rentals of $12 a square foot.

"To break even, they've got to hit $15 million," says one source, "and that is not easily done."

Even when the location problem has been solved and the lease has been signed on a conveniently located, highly visible and accessible site, today's deep-discount drug store's problems are only beginning.

Coping with competition

Once they've settled in after the grand opening there's the problem of the competition's reaction. The most common response is for competitors just to lower prices in stores that face direct competition and hope for the deep discounter to buckle.



Source: *Drug Store News*

Sometimes, competitors convert their conventional stores to their own reactive deep discounter; sometimes they try a direct mailing strategy targeted at the surrounding community. Sometimes they actually go to the trouble of reorganizing their own purchasing departments and try to fight the deep discounters tit for tat by buying on deal at the best possible prices and then passing these savings along to their customers. At the same time they let those customers know that "we discount fragrances or we discount cosmetics or we discount health & beauty aids."

Sometimes the result is that the deep discounter can't achieve the volume needed to meet projections and caves in by increasing the overall gross margin. That, of course, dilutes the store's image and undermines its credibility in the marketplace.

Sometimes, however, the deep discounter out maneu-

Continued on page 9

Who's minding the store?

B&W

All too frequently . . . nobody. Because Brown & Williamson brands are not always given the attention they need to make them as profitable as they can be.

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It demonstrates which B&W brands, and how many, you should carry to meet consumer needs and optimize sales in today's market. It shows you how to insure an appropriate inventory without overstocks or understocks, select the most effective carton and pack merchandising methods, and increase profitability through our promotions.

And Tobacco Plus will assist you in making your B&W tobacco products as profitable as they can be with these incentives, services and programs:

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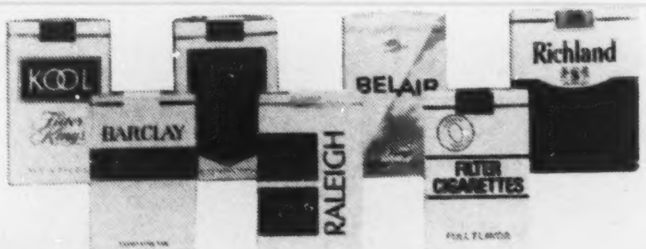
■ Package Fixturing
■ Carton Shelf Payments
■ Counter Display Payments
■ Account Business Analysis
■ Liberal Selling Terms
■ Direct Account Incentive Program
■ Return Goods Handling Allowance
■ Generic Program Incentives
■ Around-the-Clock Customer Service
■ Audio/Visual Training Materials
■ A Responsive, Professional Sales Force

If you want to get the most profitability from your B&W brands, and enjoy one of the most comprehensive service programs in the industry, ask a Brown & Williamson representative about Tobacco Plus. Minding the store will never be easier.



Tobacco Plus

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B&W BROWN & WILLIAMSON TOBACCO CORPORATION

Discounters vary on approach to business

Continued from page 7

Anatomy of a typical deep-discount drug store

Avg. inventory:	**$1.5 million**	Avg. gross margin:	**16%-18%**
Avg. turns/yr. (young store):	**3-4**	Avg. volume:*	**$5 million**
Avg. turns/yr. (older stores):	**7-8**	Avg. volume (mature stores):**	**$8 million-$10 million**
Total store size:	**15,000-33,000 sq. ft.**	Avg. shopping visits:	**2-3/mo.**
Sku's:	**16,000 to 25,000**	Avg. check per visit:	**$14-$16**

*Estimate includes stores that haven't reached maturity
**Estimate for stores 4 years and older
Source: *Drug Store News*, Management Horizons

vers the competitors on sheer buying skill and succeeds in making customers believe there is a price difference. Generally the deep discounters who can do that are also good at presenting broad varieties of merchandise assortments in clever, exciting instore presentations.

Management for the companies that operate these stores also like to contend that their buyers know how to "out-maneuver" buyers for conventional food and drug chains.

"It's not simply what you buy," says one source, "but how you buy it. A chain like Arbor Drug, for instance, has excellent buyers, and they do a very competent job of acquiring the product at a good price and merchandising it well, but there is no way their buyers can take advantage of all the deals we can. Nor do I think they know how to take advantage of all the allowances that are available."

Chains like Perry Drug, which operates A. L. Priçe deep-discount drug stores, and SupeRx, which operates Drug World, are trying to emulate that strategy by operating their deep-discount stores as separate divisions. The buyers for the deep-discount drug stores operate completely independently of the buyers for the conventional stores.

At Perry Drug, for instance, senior vp of operations Mickey Kole contends that maintaining A. L. Priçe as a separate division makes the operation much more efficient.

"We do our own buying, have our own offices, our own trucks, our own warehouses, our own leadership," says Kole. "The only help we get from corporate is in management information systems and third-party billing. If we had to go back to corporate to get approval on purchasing, it would take us too long and we would not be able to take advantage of all the deals that are available."

Not all chains are convinced that a separate buying and operating division is necessary and there is still a good deal of what most drug chain operators describe as "experimenting" or "fine tuning" still going on out there.

"If you throw out Marc's and Shulman's, I can't think of who may have the most efficient system out there," says Gary Hendren, vp of marketing for SupeRx drug stores. Hendren, who is deeply involved, along with George Dozier, in the development of SupeRx's Drug World, says that the only certainty is that the long-term winners in this segment will be those "who figure out how to run the most efficient low-cost operation."

He adds that, contrary to the popular belief that individual deep-discount stores should buy and take delivery of product direct from the vendor source, in today's world, being the most efficient "may include warehousing if that's what it takes to put the merchandise on the shelf at the lowest possible cost."

Purchasing and distribution

Retailers who look to the two major deep-discount chains for guidance on warehouses get no immediate answers. F & M does make centralized purchases and does warehouse. Drug Emporium does neither.

Drug Emporium sources say their strategy gives them the flexibility to respond to the best possible deals, while F & M sources say they give up nothing in flexibility while gaining much greater control over their store operations.

Drug Emporium as a company is growing much faster than F & M, but Drug Emporium is franchising much of its growth while F & M is building company stores, with what sources say is basically internally generated cash.

F & M currently operates about 22 stores to Drug Emporium's 72. At the end of calendar 1985, F & M may have about 28 while Drug Emporium hopes to have about 90. About 25% of Drug Emporium's stores are company-owned, the rest are either franchised or part of joint ventures. The company hopes to increase its ratio of company to franchised/joint venture stores to about 30% by year end.

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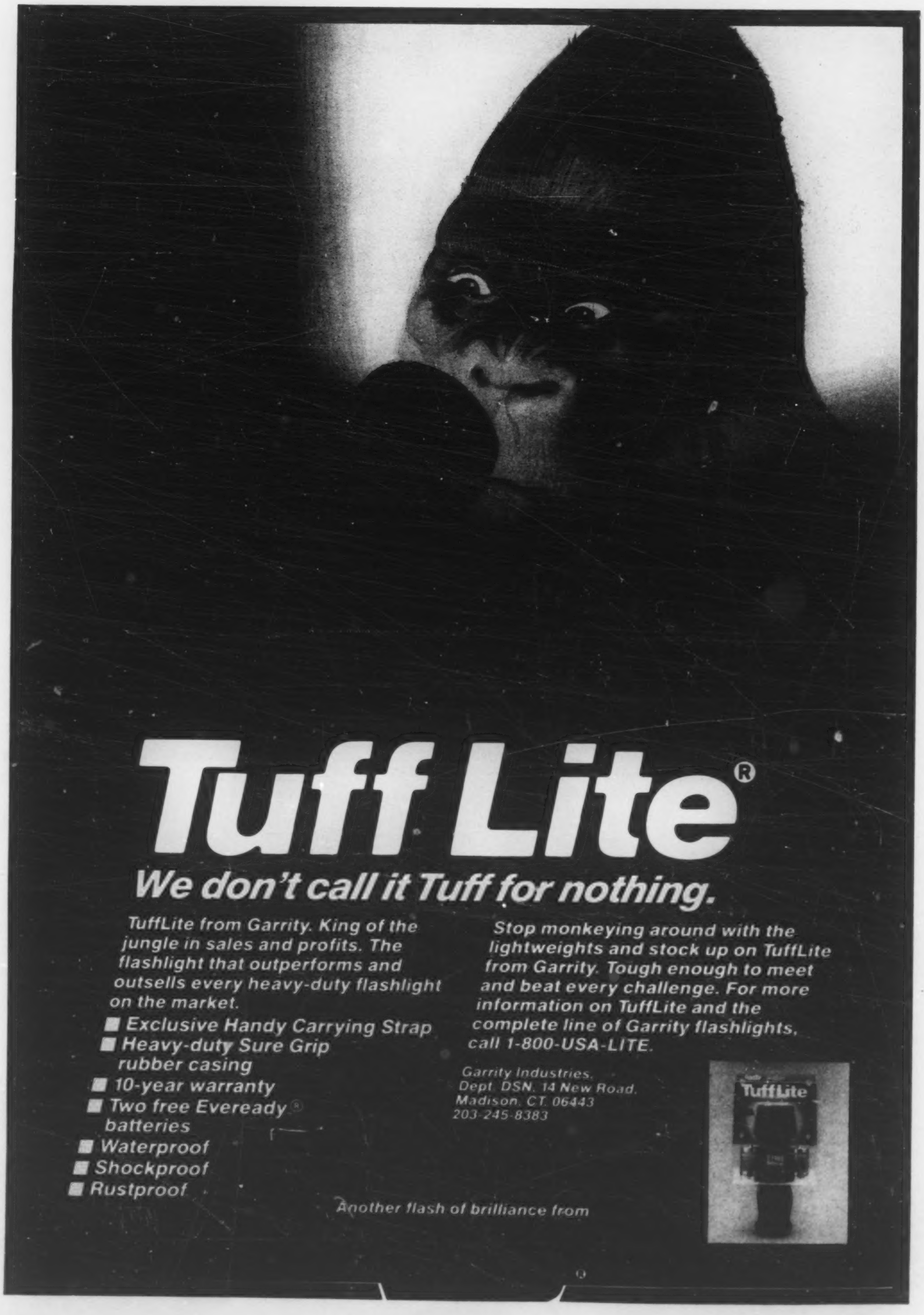

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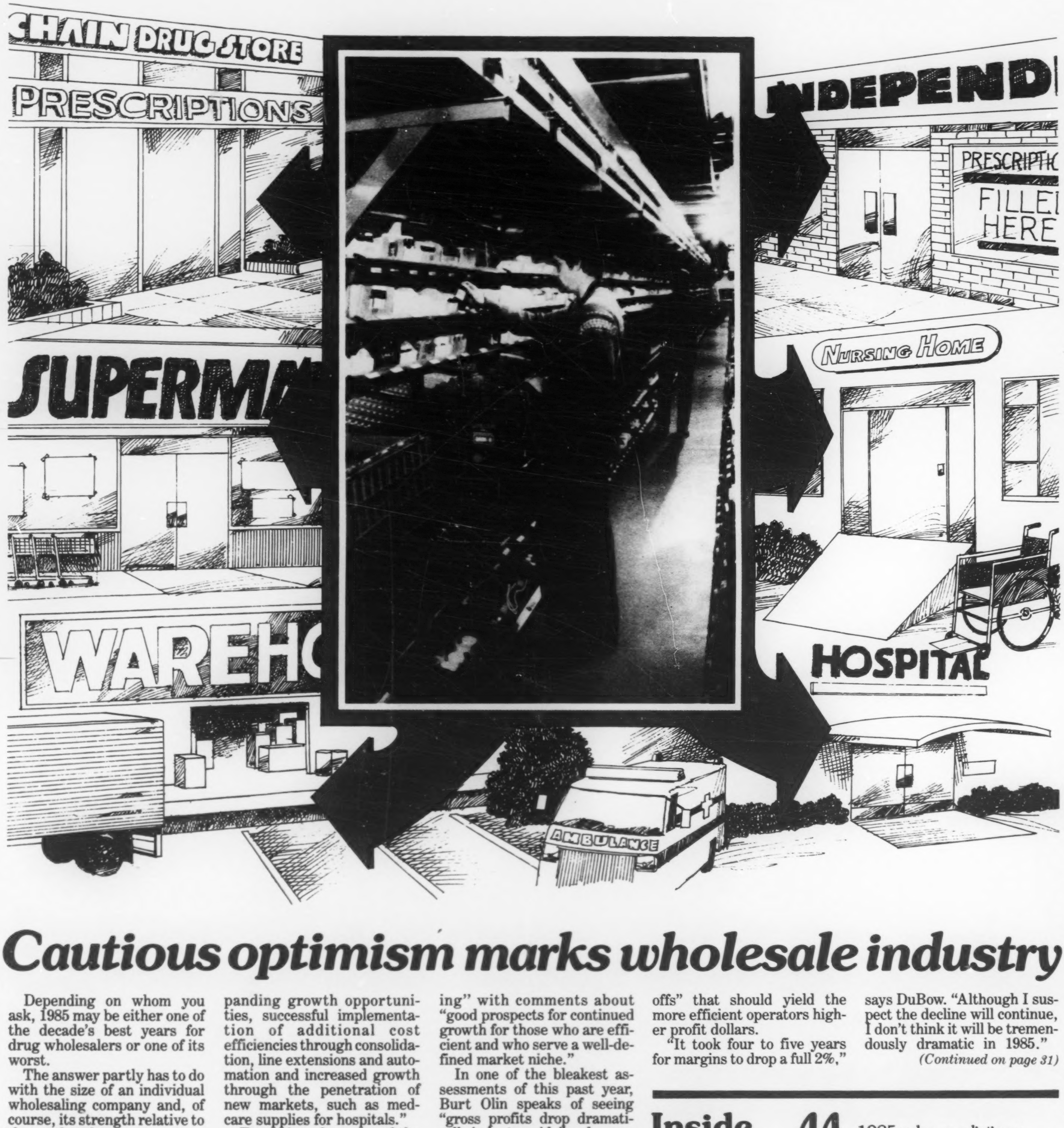
Another flash of brilliance from

Annual Wholesaler Report

1985



Cautious optimism marks wholesale industry

Depending on whom you ask, 1985 may be either one of the decade's best years for drug wholesalers or one of its worst.

The answer partly has to do with the size of an individual wholesaling company and, of course, its strength relative to the marketplace.

On average, the larger wholesalers like McKesson, Bergen and FoxMeyer are primarily optimistic about 1985 and prospects for 1986. Executives like Bill Tauscher, chairman of FoxMeyer, Joe Polastri, president of McKesson Drug, and Jack Fay, executive vp of Bergen Brunswig, speak confidently about "expanding growth opportunities, successful implementation of additional cost efficiencies through consolidation, line extensions and automation and increased growth through the penetration of new markets, such as medcare supplies for hospitals."

Executives for some of the smaller, regional companies, such as Lawrence DuBow, president of Lawrence Pharmaceuticals, Burt Olin, chairman/ceo of Humiston-Keeling, and Steve Westall, senior vp of Los Angeles Drug, LAD, are a little more restrained in their optimism, weaving in terms like "rat race, trade-offs and shrinking" with comments about "good prospects for continued growth for those who are efficient and who serve a well-defined market niche."

In one of the bleakest assessments of this past year, Burt Olin speaks of seeing "gross profits drop dramatically industrywide" and warns that the only thing keeping some wholesalers alive today is their ability "to buy into price increases."

Lawrence DuBow also agrees that 1985 will mark another year in which gross profit margins continue to go down. However, he feels that the decline will again be incremental and marked by "trade-offs" that should yield the more efficient operators higher profit dollars.

"It took four to five years for margins to drop a full 2%," says DuBow. "Although I suspect the decline will continue, I don't think it will be tremendously dramatic in 1985."

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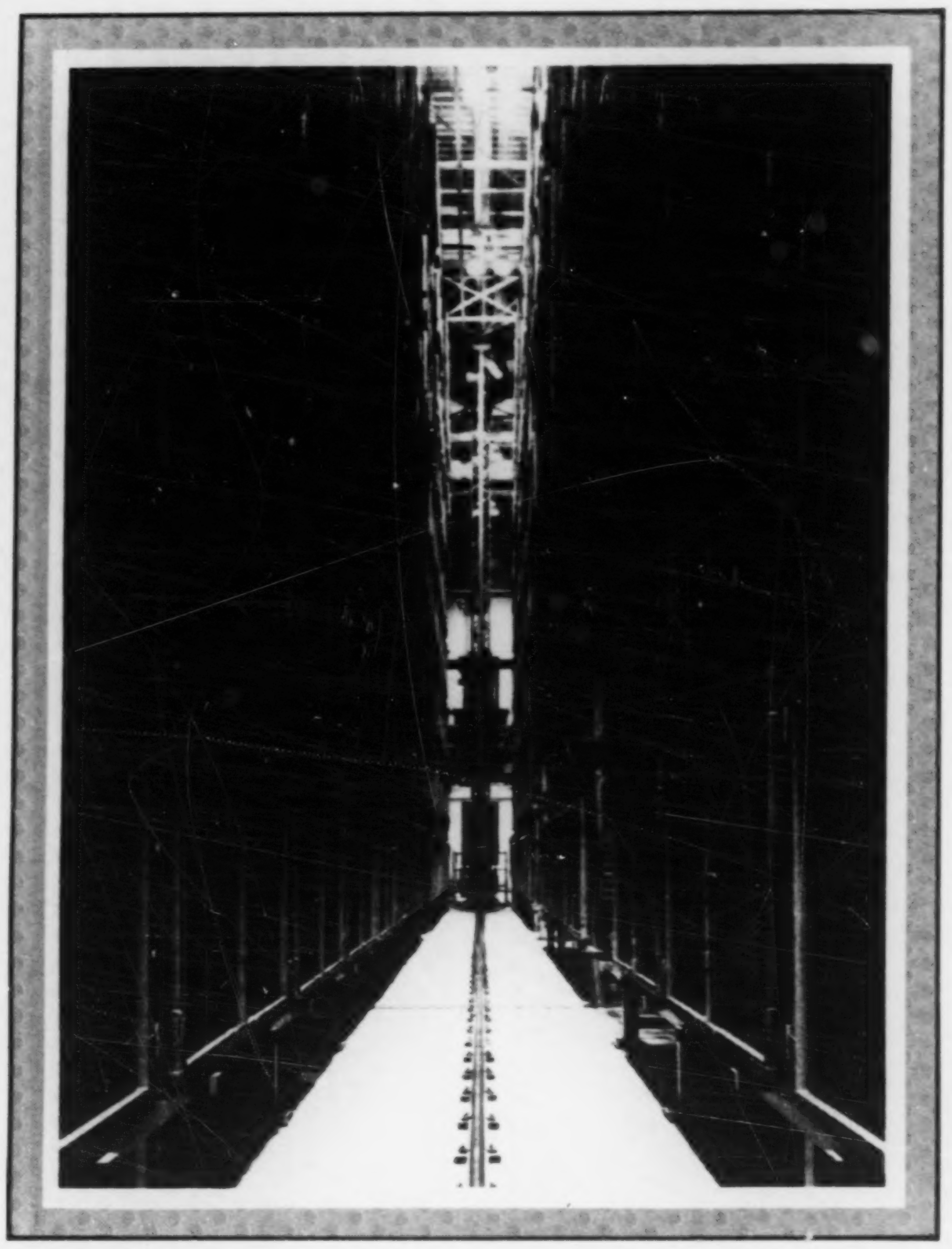
1985 Annual Wholesaler Report



The nation's top wholesalers

	F.Y. ending	Est. drug sales (in millions)	1-year change		F.Y. ending	Est. drug sales (in millions)	1-year change
1. **McKesson Drug** *San Francisco*	3/31/86	***$2,800***	14%	11. **Humiston-Keeling** *Chicago*	4/30/85	***$255***	8%
2. **Bergen Brunswig** *Los Angeles*	8/31/85	***1,900***	41	12. **Los Angeles Drug** *Rosemead, Calif.*	12/31/85	***200***	25
3. **FoxMeyer** *Denver*	3/31/86	***1,250***	74	13. **Cardinal Distrib.** *Dublin, Ohio*	3/31/86	***197***	62
4. **Alco Health Services** *Valley Forge, Pa.*	9/30/85	***960***	40	14. **Southwestern** *Dallas*	12/31/85	***180***	12
5. **Harris Wholesale** *Solon, Ohio*	4/30/86	***740***	29	15. **Northwestern** *Auburn, Wash.*	1/31/86	***170***	13
6. **Bindley Western** *Indianapolis*	12/31/85	***650***	15	16. **L. S. DuBois** *Paducah, Ky.*	6/30/86	***165***	33
7. **Amfac** *Burlingame, Calif.*	12/31/85	***600***	20	17. **Lawrence Pharm.** *Jacksonville, Fla.*	8/31/85	***150***	14
8. **Durr Fillauer** *Montgomery, Ala.*	12/31/85	***500***	25	18. **James W. Daly** *Lynnfield, Mass.*	1/31/86	***135***	13
9. **Owens & Minor** *Richmond, Va.*	12/31/85	***350***	14	19. **Twin City Wholesale** *Minneapolis*	12/31/85	***115***	33
10. **Ketchum** *Newington, Conn.*	4/30/86	***307***	12	20. **N.C. Mutual** *Durham, N.C.*	3/31/86	***100***	12

Source: *Drug Store News survey*

Continued from page 29

DuBow also points out that since 1978 when the National Wholesale Druggists' Association reported that the gross profit percentage was 11.63% until 1984 when NWDA reported it at 9.39%, total operating expenses as a per cent of sales also declined, thankfully, going from 9.74% in 1978 to 6.84% in 1984.

DuBow predicts that cost expenses "will continue to go down" although he concedes that it is hard to say "how much further the industry can go in controlling its costs. We've done a remarkable job to date."

The companies who will be able to continue streamlining their operations, most sources agree, will be the big ones, the McKessons, Bergens, FoxMeyers, Alcos, Harrises, AmFacs and Cardinals who have the financial resources to continue to acquire smaller companies.

Consolidation

"On the expense side," DuBow says, "the procedures for operating efficiently are there. But on the volume side, you could have a problem. To get it, you have to go after customer acquisition, and the fastest way to do that is to consolidate, to merge with other companies, and then you can drop some of the expenses of doing business to the bottom line."

"The number of companies in our industry are shrinking," says Steve Westall of LAD, "and you're going to see that trend continue.

"Consolidation and competition are going to get more intense," says Bill Bindley, chairman/ceo of Bindley Western. "In the last few years gross margins have declined in the wholesale industry," he says, "because we're meeting competition with price.

"To continue to reduce margins, you have to be able to reduce expenses. We're now at the point where we're pretty close to the bottom. There isn't much room left to go lower, and this, of course, is putting pressure on the smaller families to sell."

It's also, of course, putting pressure on the larger companies to buy, and McKesson, Bergen, FoxMeyer and Alco have continued to grow through acquisitions in 1985. Their executives say they plan to continue to grow throughout the rest of this year as well as in 1986 and beyond. At presstime, Bill Tauscher confided that FoxMeyer was close to "a major acquisition announcement" and Bergen executives were talking about "three or four possible acquisitions in various stages of negotiation."

However, there was some evidence that the acquisition trend may be approaching a peak. Several sources noted that most of the better companies have already been acquired and Jack Fay of Bergen pointed out that value for wholesale companies today are at "a high point."

The 1985 wholesaling executive, however, is already exploring other options for growth. If acquisition activity is reaching a point at which it may be peaking or drying up, then volume has to come from other business areas such as hospitals, HMO's, PPO's, nursing homes, chain food,

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Wholesaler services

	% of respondents who offer this service	% who plan to offer service in the future
Price updates & customized price labels based on gm's	89%	6%
Product movement reports	84	N.A.
Promotional programs such as co-op ad programs	79	N.A.
Generic prescriptions	79	N.A.
In-store merchandising	74	12
Store remodeling	74	6
Store fixturing	74	6
Rx computer software	68	6
Rx computer hardware	63	6
Inventory reports	58	16
Host support for computers	47	16
Site selection	42	N.A.
Financial assistance	42	6
Private label	42	6
Financial & management reports	32	16

Source: Drug Store News 1985 Drug Wholesaler Survey

Wholesaler automation

Type of automation system	% of respondents with this system in at least one d.c.	% of respondents who said all d.c.'s had this system
Automatic reordering from retail customers	94%	100%
Automatic reordering from manufacturer/supplier	89	100
Paying manufacturer/ supplier vendor	72	100
Locating or assigning product to warehouse	72	85
Receiving customer payment	33	67
Returning damaged goods	22	33
Receiving product	17	100
Routing product into conveyor lanes & truck	17	100
Picking product	17	100

Source: Drug Store News 1985 Wholesaler Survey

Continued from page 31

drug and mass merchandise stores, newly formed independent buying groups and the addition of new product lines like home health care products and medical care supplies.

Wholesalers offering retail zone pricing information

Prescription products	50%
Over the counter products	81
Health & beauty aid products	81

Source: Drug Store news *1985 Drug Wholesaler Survey*

Growth areas

Yet even here, in the pursuit of new business, there is cause for alarm as well as cause for jubilation. Some of the new customer mix opportunities involve the types of "trade-offs" that benefit some wholesalers while worrying others.

"The hospital business," says McKesson's Joe Polastri, is "good business, a high-volume growing business. With some of these accounts, it's not unusual to be doing $100,000 a month. Yes, the cost plus fees are lower than for the retail segment, but what difference does it make if the dollars are there. What would you rather have: $100,000 of business at cost plus 3% or $10,000 at cost plus 5%?"

"The hospital business is not always a very profitable business," says Humiston-Keeling's Burt Olin. "I know of one wholesaler who told me he lost a competitive bid because the company against him bid one-tenth of a per cent to get the contract."

Most wholesalers agree that the only sure way hospital business can be profitable is if the wholesaler servicing the account is "geared to doing business with a hospital" and is in a position to be flexible enough to provide the services that can lead to successful "trade-offs."

Says Mike Mobley, vice president of sales for Amfac, a company that is aggressively pursuing the hospital market, the business is "very competitive," but it helps when a wholesaler has programs that can expedite processes that reduce that hospital's cost of doing business."

Mobley, who says he knows of cases where hospitals negotiated a contract with a wholesaler for a cost plus fee of less than 1%, says, however, that hospitals, just like retailers, are not totally swayed by price. That services count too. And that wholesalers who can provide needed services can ask for and obtain higher cost plus fees.

"Hospitals look at the total cost of product," he says, "if we can give them a movement report by therapeutic class, which we can, than that's worth a couple of tenths of points. They're telling us that they're interested in the things that we can do to help reduce their cost of goods."

"We're doing very well with hospitals," says McKesson's Fred Toney, sr. vp of marketing, "We're trying to develop systems that will let us work closely with the hospitals and fill their needs."

Toney says that McKesson, which has a special board of hospital advisers organized to help identify the needs that McKesson may be able to satisfy, has developed a number of services for hospitals including purchase orders printed in alpha sequence and presequenced receiving records so that hospitals can know just what they'll be getting and in what order.

"When we bid for a hospital's business," says Toney, echoing Mobley's comments, "we don't just bid price, we bid service."

However, not all wholesalers have the resources to provide the services, let alone to compete on the price. That's one reason why a company like McKesson could report "continuing dramatic growth in the hospital segment of their industry" while others like Ketchum and Lawrence Pharmaceuticals report some growth but off a low base or

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Continued from page 32

declining growth.

"It's a business for the wholesaler with tremendous financial resources," says DuBow. Even Joe Polastri admits that if hospital business ever reached 60% of a wholesaler's total sales, there'd be "deep trouble."

Buying groups

Even more disturbing to some wholesalers is the fact that independent retailers, envious of some of the contracts hospitals have been able to negotiate because of their volume efficiencies, are trying to emulate their success by forming volume buying groups of their own. They're then using the existence of these groups to try to pressure the wholesaler into lower bids, "further pressuring our margins."

Almost every wholesaler interviewed for this article agreed that the growth of buying groups was a major trend in 1985, and this included wholesalers like Judd Phelps at Ketchum, who said that the groups weren't that strong "yet" in their particular markets.

"They're coming," he said, "and they will put additional pressures on us."

"It's fashionable right now to join a buying group, but whether it's going to be a success or not, I don't know," said Dubow.

"The retail buying groups want all the things that a hospital gets," says Burt Olin. "If the manufacturers don't give it to them, then they start looking to the wholesalers."

However, at Bergen Brunswig, Jack Fay was skeptical about the long term prospect for retail buying groups. "If some of the inequities that come about because of the Medicare program and other government regulations go away, as I think they will ultimately," he said, "the market will regulate itself and they'll be less need for buying groups."

Fay also felt that buying groups lack the "discipline" to be successful at buying and distributing and that their tendency to buy in bulk when good prices are available works against turnover and makes them "relatively inefficient."

There was also some disagreement among wholesalers as to exactly how a wholesaler was expected to service buying groups: on price alone or on price coupled with services.

Several wholesalers like Bill Tauscher and Lawrence DuBow felt that groups were basically "only interested in price" and were not responsive to marketing programs that included enhanced support services.

However, other retailers like Joe Polastri, Jack Fay, Fred Toney, Mike Mobley, etc., felt that the perception of price may be "overemphasized" and that opportunities existed for wholesalers to sell "systems" as well as price.

"Having the best price may be fine," says Polastri, "but you need leverage to get the customers in the store. If you never tell anybody you have the best prices, then what's the good of it to you?"

"Buying groups are looking for both services and price," says Toney. "We're presenting our Valu Rite program as an option to people who come together in groups. It's just starting and it's too soon to tell, but we think we have a good program for the groups in Valu Rite."

Bob Aitchison, vp of marketing for Alco Health Services, said that instead of perceiving buying groups as a threat to drug wholesalers, Alco sees them as an "example of a need for us to develop sound marketing and sales programs to help them compete.

"With our added services and voluntaries, we can work efficiently with the buying group as a partner," he said, "rather than having them go out and try to reinvent the wheel."

HMO's & PPO's

The emphasis on service for the independent retailers was also strong when wholesalers discussed the growth to date of HMO's and PPO's. Many wholesalers said they were exploring ways to help their independent retail customers develop programs that would make them attractive to PPO's.

"We've seen dramatic growth from HMO's and PPO's," said Steve Westall at LAD. "The PPO's offer a good opportunity for the retailers as well as for us. I'd estimate that right now about half of our retail customers participate in a PPO of some kind."

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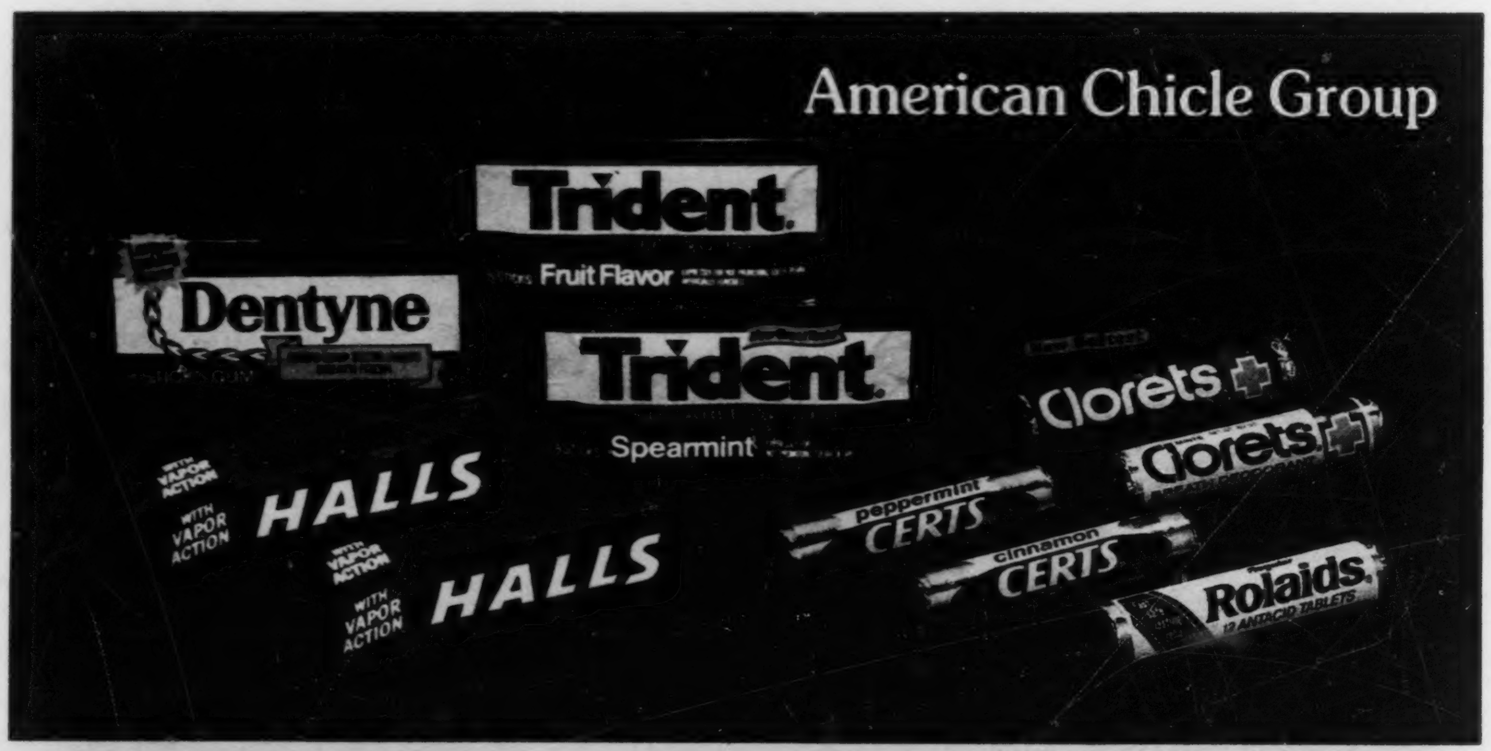
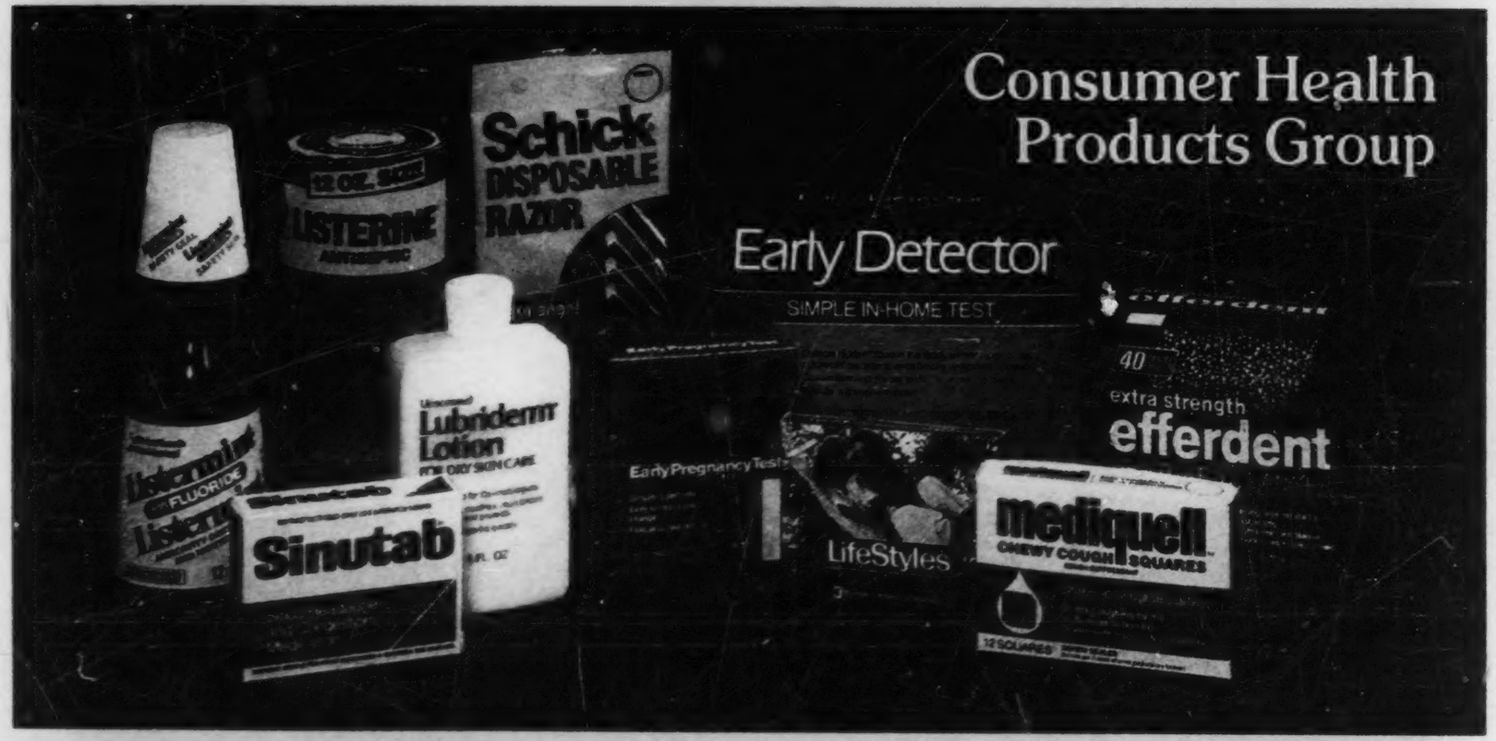
Warner-Lambert is working for the consumer



The American Chicle Group has long been a pacesetter in chewing gums, breath mints, cough tablets and antacids. Quality and uniqueness are reflected in market leadership for Halls cough tablets, Certs mints, Rolaids antacid, Trident sugarless gum, and Bubblicious bubble gum. American Chicle is noted for leadership and excellence in merchandising and point of purchase support.



The Consumer Health Products Group is in the midst of an aggressive new product development program. The results already include Listermint with Fluoride, antiplaque protection from Listerine antiseptic, an innovative chewable cough tablet called Mediquell, and newly introduced Early Detector. Additional new products will continue in this line of successes.

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Continued from page 36

"We have to get into the business of becoming buying groups for independent retailers who want to participate in PPO's," says FoxMeyer's Bill Tauscher, "so we can turn the independents into a marketing force.

"If a group of independents without computer systems and with antitrust worries have to compete with Walgreens for a PPO program, Walgreens will win all the time. Since Walgreens is not my customer, I have to figure out how to fix this situation."

A few wholesalers like McPike, a division of FoxMeyer, are actively supporting buying groups with data processing programs, bidding programs and other marketing services. McPike was also involved in the formation of the buying group for what Tauscher describes as a couple of hundred independents.

"HMO's and PPO's are both growth areas," says Alco's Bob Aitchison, "but PPO's are serviced by groups of retailers and we look at PPO programs from their perspective. How can we make it more profitable for them? We're looking at cost containment delivery systems and additional strategies that will help them."

"HMO's and PPO's will continue to grow," says Lawrence DuBow, "but HMO growth will come out of the hide of the retail chains. We're attempting to represent the independent in speaking to the PPO's. Laws don't allow two independents to talk to a PPO. There's a vulnerability to price-fixing allegations. We go in as a third party and speak for all the interested independents. What wholesalers are doing now is similar to what state associations do."

Wholesalers today rate their success at penetrating the HMO/PPO market as anywhere from "marginal" to "promising." However, they say that with cost containment such a strong factor in the marketplace, HMO's and PPO's will probably account for 10% of all wholesale sales within the next couple of years.

Out on the West Coast, Steve Westall of LAD thinks the industry will enjoy similar growth spurts from increased sales to convalescent aid centers.

"The convalescent business wasn't even around five years ago," he says. "Now it accounts for about 15% of the business."

"Convalescent centers, freestanding emergency centers, also known as Doc in the Box and Fec's, they're all going to represent strong growth trends for the rest of this decade," says Bergen's Jack Fay.

Fay also says that one of the reasons why medical surgical sales are up for so many

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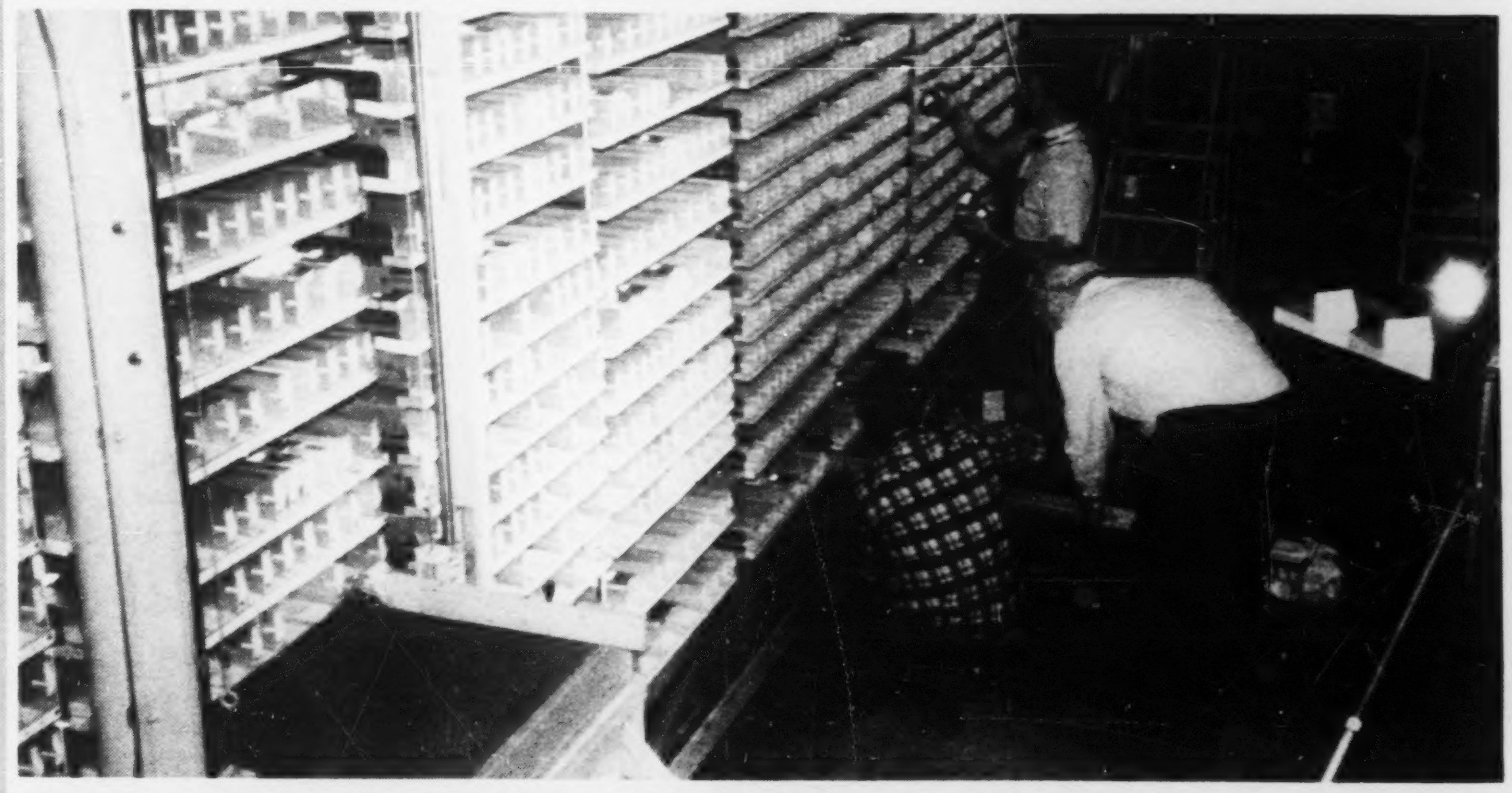

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Annual Wholesaler Report 1985

Continued from page 37

wholesalers is because of the opportunities created by the shift in medical care, away from traditional hospitals and toward freestanding ambulatory care.

"It's convenience medication," he said. "Medical care located close to consumers on a walk-in basis." Tauscher also called the hospital supply business an important trend in 1985 and a promising emerging growth area for wholesalers.

"Drug wholesalers can operate hospital supply businesses the same way they operate their wholesale drug business," he said, "and they can do it more efficiently than the traditional hospital supply companies who are primarily regionals."

"Bergen, Durr Fillauer, Owens, McPike, they're all stealing market share from the regionals in a big way. In 18 months our business in hospital supply grew to $250 million. It was zero 18 months ago."

Tauscher said FoxMeyer has six distribution centers for hospital supply now and will open another five by the spring of 1986. Tauscher roughly estimated the hospital supply business at around $7 billion and said that if drug wholesalers have less than 10% now, they could have between 50% and 60% over the course of the next decade.

"Medical surgical supplies," agreed McKesson's Joe Polastri, "is a very promising growth area and already a big part of McKesson's hospital supplier sales."

Some wholesalers, in fact, actually felt that medical supplies may one day account for more sales to hospitals than pharmaceuticals. Primarily because of the deterioration and dangers of the diversion marketplace, several wholesalers felt that hospitals will eventually begin reducing or eliminating the number of pharmaceuticals they purchase from drug wholesalers and will opt instead to buy direct from manufacturers.

Several wholesalers made the point that it would be much easier for manufacturers to control the distribution of their product and minimize diversion if they shipped "directly to the hospitals" and eliminated the current

Continued on page 43

Wholesaler distribution centers

	Number		Sales/d.c.
	'85	'84	
Bergen Brunswig*	90	43	*$ 20.0*
McKesson Drug	52	49	*55.0*
Amfac	38	41	*12.6*
Alco	20	20	*41.0*
FoxMeyer	12	15	*100.0*
Harris Wholesale	8	6	*90.0*
Bindley Western	6	6	*95.0*
Durr Fillauer	5	6	*40.0*
Owens & Minor	4	4	*33.0*
Southwestern Drug	3	4	*60.0*
L. S. DuBois	1	1	*165.0*
James W. Daly	1	1	*135.0*
N. C. Mutual	1	1	*100.0*
Northwestern Drug	1	1	*67.5*

Source: *Drug Store News* survey

*As of 1/1/86

Voluntary, co-op and franchise services

Company	Voluntaries co-ops, franchises	No. of independents serviced	Voluntaries, co-ops or franchised
McKesson	Valu-Rite	13,000	10%
Bergen Brunswig	Good Neighbor	5,500	7
FoxMeyer	Health Mart	5,000	10
Alco	Family Independent Rx	5,300	15
Harris	Super Service	3,000	10
Durr Fillauer	Price Guard	1,300	25
Owens & Minor	Cardinal Drug	800	12
DuBois	Associated Drug	450	10
James W. Daly	Ad Value	600	2
N. C. Mutual	Mutual Drugs	355	58

Source: *Drug Store News* Survey

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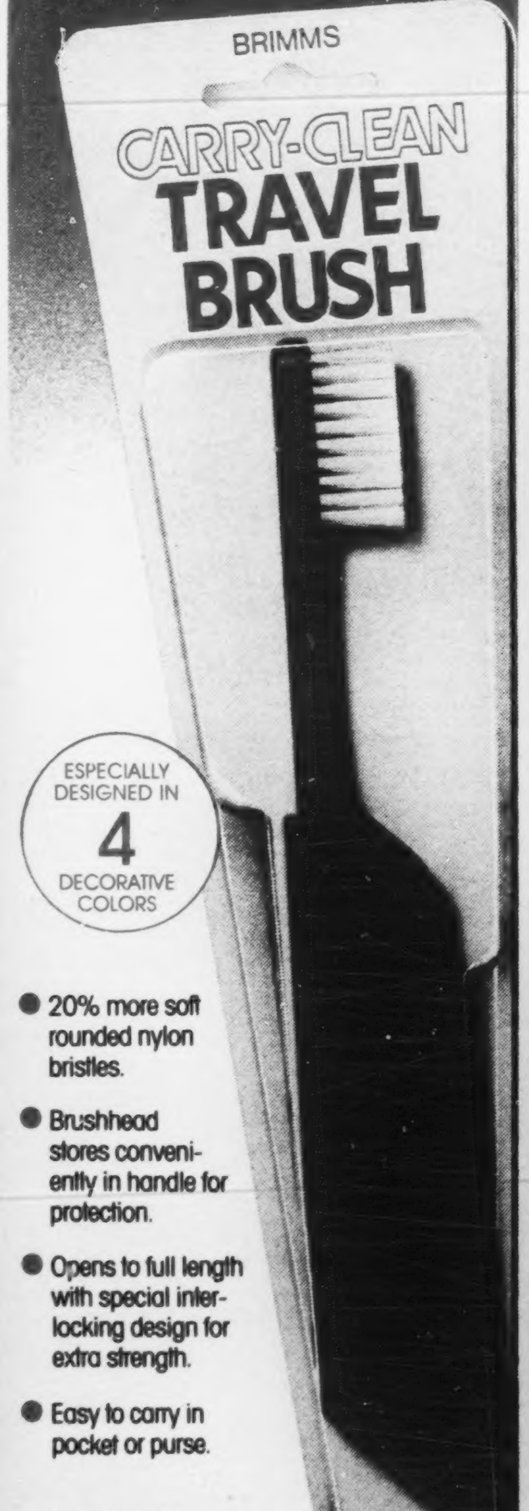

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Continued from page 38

charge-back system now in effect for wholesalers.

Most wholesalers also said that because of the recent negative publicity surrounding diversion, they were themselves re-evaluating their methods of doing business with secondary suppliers.

Diversion

A number, including Bindley Western, which had three key executives resign prior to pleading guilty to diversion malpractices, said they had put a freze on all pharmaceutical buying from secondary sources while many others said they were continuing to buy from select "secondary sources" but under much tighter scrutiny.

Alco Home Health doesn't buy pharmaceuticals from diverters and only some of their distribution centers buy over-the-counter drugs from seconary sources, but even so vp of sales Bob Aitchison says management is "tightening up the paperwork, tightening up the supervision.

"We're looking at the drafting of legal documents," he said, "that would specify, in affadavit form, that the product is genuine and that the source of the product is the source that is specified.

"A lot of people with garage operations aren't going to be around anymore," says Steve Westall of LAD. "We have very strict requirements on the source of origin, and we put them in more than a year ago, before the Dingell hearings and the Atlanta FBI case, because we could see it coming.

"It's not so much that the industry doesn't have systems like audit trails and purchasing procedures to fend off diversion, it's that some of those that had them didn't use them. No one bothered to check."

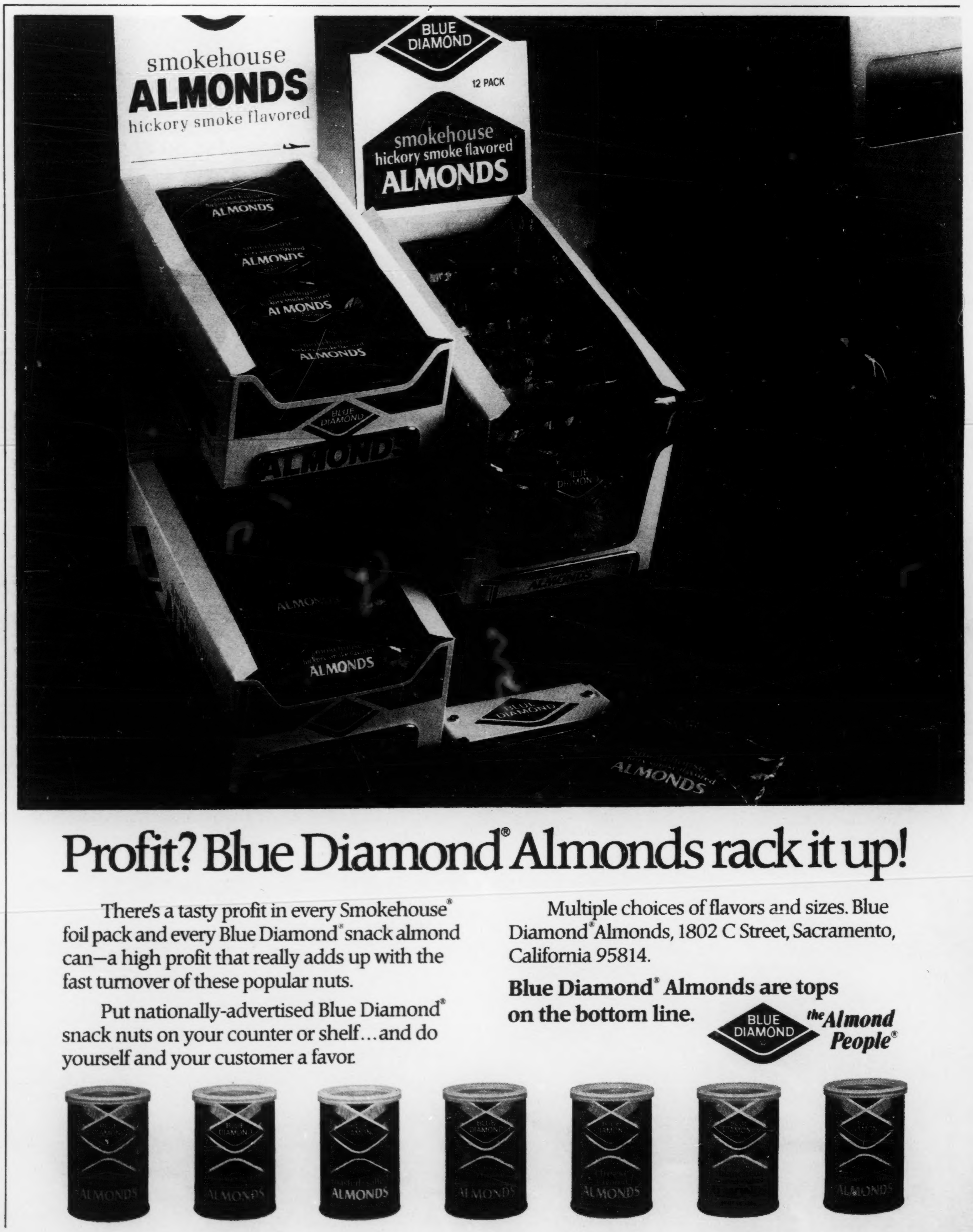
"We buy nothing from diverters and we let our customers know that," said Lawrence of Lawrence Pharmaceuticals, "but we get hit on price pretty bad from those that do and I'm not saying they're wrong to take that option. I hear some manufacturers said they were going to try and control it, try and crack down, but we get the lists from diverters and I see their merchandise still appears there."

"It's going to get worse before it gets better," said Burt Olin of Humiston-Keeling. "The FBI won't go after the manufacturers who are the real culprits. If the manufacturers don't do anything, then I think it'll just go underground. It'll get more devious."

"The probable outcome," says Jack Fay of Bergen, is that we'll see some control of sampling. I'd expect some legislation that would either eliminate sampling or regulate its use. There will probably also be strategic controls on import/export activities. There should be some stronger re-entry controls.

"But the thing that is the least likely to change is the elimination of the price differentials. At least the government can't do anything about that because one of the big beneficiaries are the federal installations."

A few wholesalers said they were thinking of possibly emulating Revco and setting up a program to lab test product as it is delivered, but others said such a program would be too costly and difficult to implement, and that to try to open a set number of sample products and test the product would be "so costly it'd eliminate any advantage in buying from diverters in the first place."



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Drug wholesalers see sales up 17%, margins decline

Drug wholesalers are estimating that industry sales will increase 12% to 17% in 1985 for a total of between $14 billion and $14.6 billion. Sales for 1984 were $12.5 billion.

Many are also predicting that profit margins will again go down, perhaps "dramatically" to below 9%. Margins last year were down 4% to 9.39%.

Feelings were mixed in the industry as to whether the majority of companies would be able to continue making the adjustments and tradeoffs that can insure profit growth in the face of declining margins.

Jack Fay, executive vp for Bergen Brunswig, spoke of the industry's skill at managing what he called "planned margin declines."

"What you're seeing," he said, "are many companies like Bergen plan their margin reductions to be competitive. At Bergen, we've made a conscious decision to attach our business mix. Between a mix that stresses low margins but higher line extensions, there are opportunities.

"If your business is being appropriately managed and you're watching your costs and your mix of business, you can do just fine and be very profitable."

"The hospitals are very competitive," says Mike Mobley, vp of sales for Amfac, "but they're not trying to pressure us. They're trying to find ways to help us reduce our costs of goods and consequently their own costs of goods. They're demanding more savings from us as well as from themselves."

As a result, says Mobley, hospitals may negotiate contracts that reduce the cost-plus fees and by extension overall gross profit margins, but simultaneously they are agreeing to "tradeoffs" that help both themselves and their wholesalers operate more efficiently.

Some of these tradeoffs, which are also occurring with retail customers, include customers prepaying for orders; paying on a weekly or bimonthly basis instead of monthly; reducing the number of deliveries they receive; and buying 10, 50 or 100 items at

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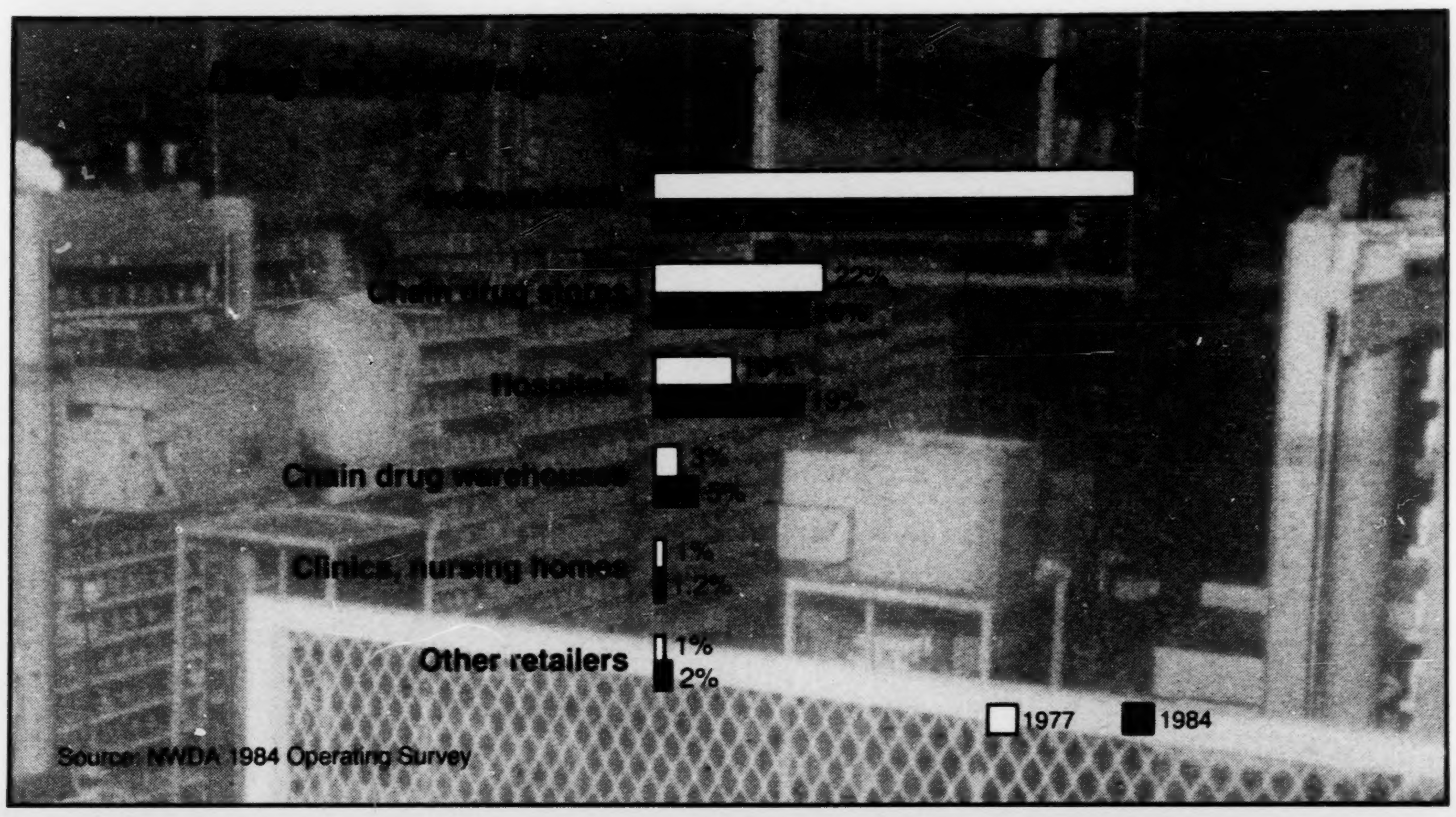
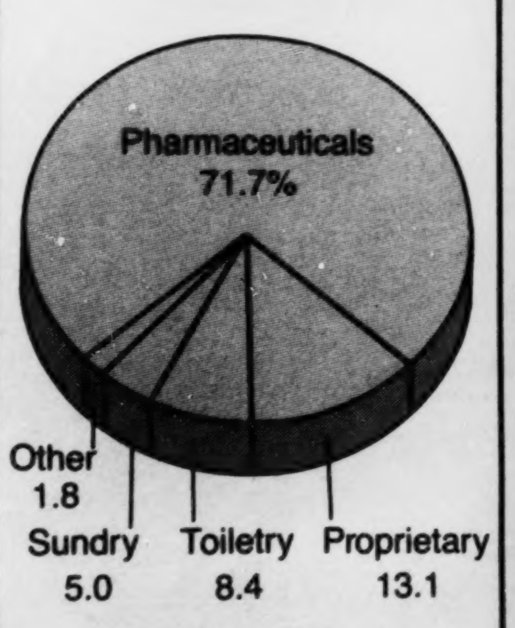


Source: NWDA 1984 Operating Survey

Breakout of 1984 wholesaler sales by product mix



Source: NWDA 1984 Operating Survey

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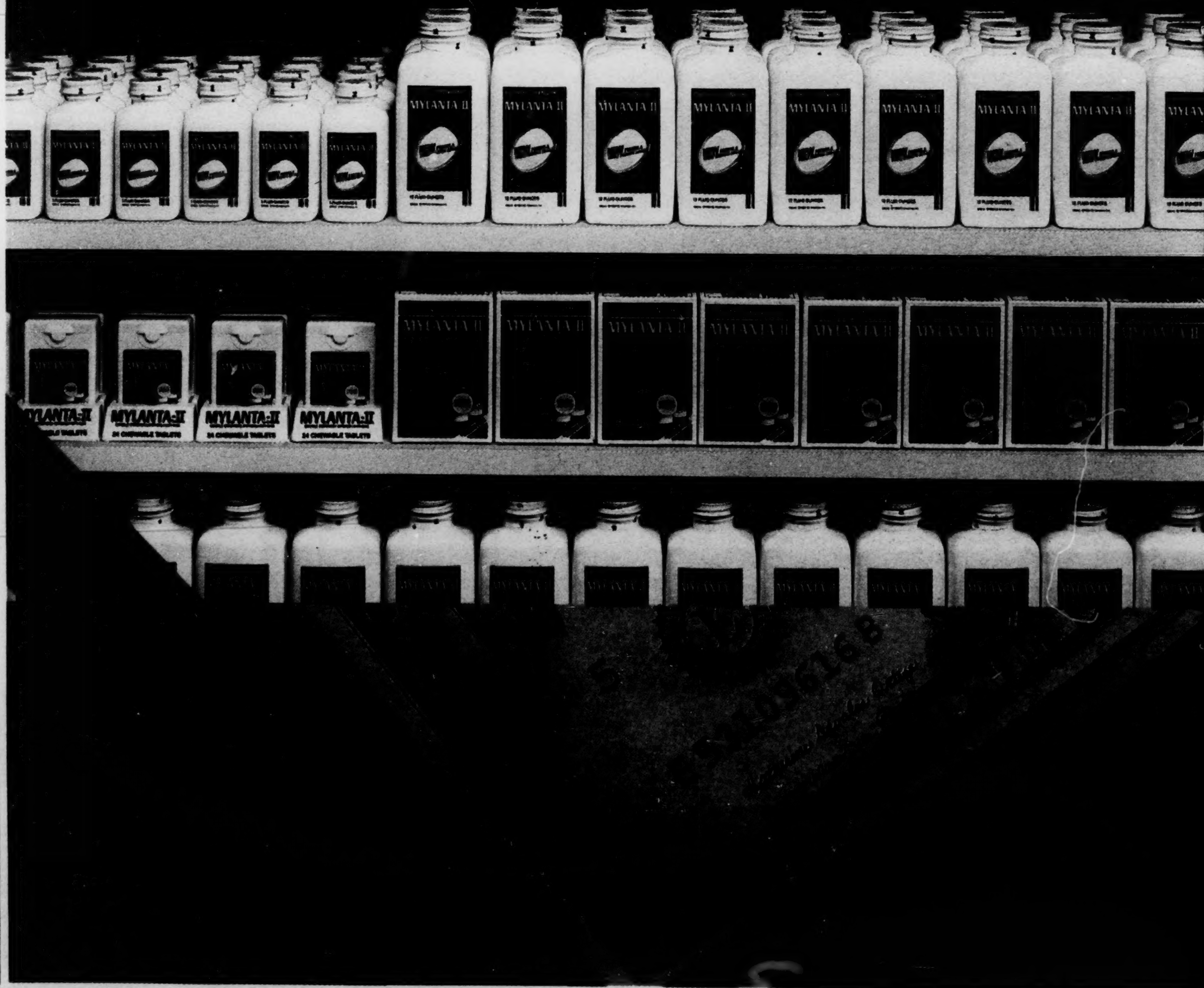

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once instead of just one or two.

"If the customer pays each week or prepays," points out Mobley, "that lowers our day's receivable, gives us the cash faster and allows us to invest it. If they order 10 items instead of two, then the margin on those items is still the same, but instead of making 50¢ on that sale, maybe we make $5. The cost to pull the product off the shelf is constant so if we pull a line [a line is the item times the quantity ordered] at $5 or at $50, the labor cost is still the same."

"If a customer orders just one bottle of aspirins," says Bergen's Jack Fay, "it may earn the wholesaler 15¢ when he fills that order, but the labor cost to fill that line might be $1.25. You can see that just to break even the wholesalers should pick eight bottles."

"We're not asking the retailer to buy more than they need just so we can have higher line extensions," says Mobley. "We don't want them to take a three-month supply. But if you [the wholesaler] can help them be more efficient, it comes back to you."

Mobley also pointed out that most wholesalers bill every 15 days. So whether a retailer buys two bottles in week one and two more in week two, he or she pays at the same time. However, by buying four at one time, Mobley says the retailer is also able to operate more efficiently. "It's easier for the retailer to check in four items at once than two and two again. It reduces paper work, receiving time, stocking time, price-marking time and reordering time."

Joe Polastri, president of McKesson Drug, also points out that wholesalers are able to reduce their risk of doing business when customers agree to prepay orders, plus the wholesaler has the money in advance to invest in other profitable ventures.

However, not everyone agrees that faster payment terms will contribute that much to helping wholesalers operate more profitably. "Faster payment terms won't impact on your expenses," points out Lawrence DuBow, president of Lawrence Pharmaceuticals. "They'll just help you get a better return on your money. Less deliveries won't always have that much impact either. Most wholesale companies today have to figure out how to move more volume with just the same number of people."

Most wholesalers keep coming back to line extensions as the key to enhancing profitability. "It's always been a line extension business," says Steve Westall, sr. vp of LAD Drug. "Every program I've ever developed is based on line extensions. It's the easiest way to process product at the lowest price."

Bob Aitchison, vp of marketing at Alco Health Services, points out that as the wholesaler's retail and hospital customers face more competition and more cost constraints in the marketplace, it becomes the wholesaler's job "to work more efficiently, to progress into asset management so we can give the services that are needed.

"The key," says Aitchison, "is to get a proper balance of where you want to put your money and your resources. Whether it's the hospital segment or chains or independents, you have to be cognizant of where your mix is."

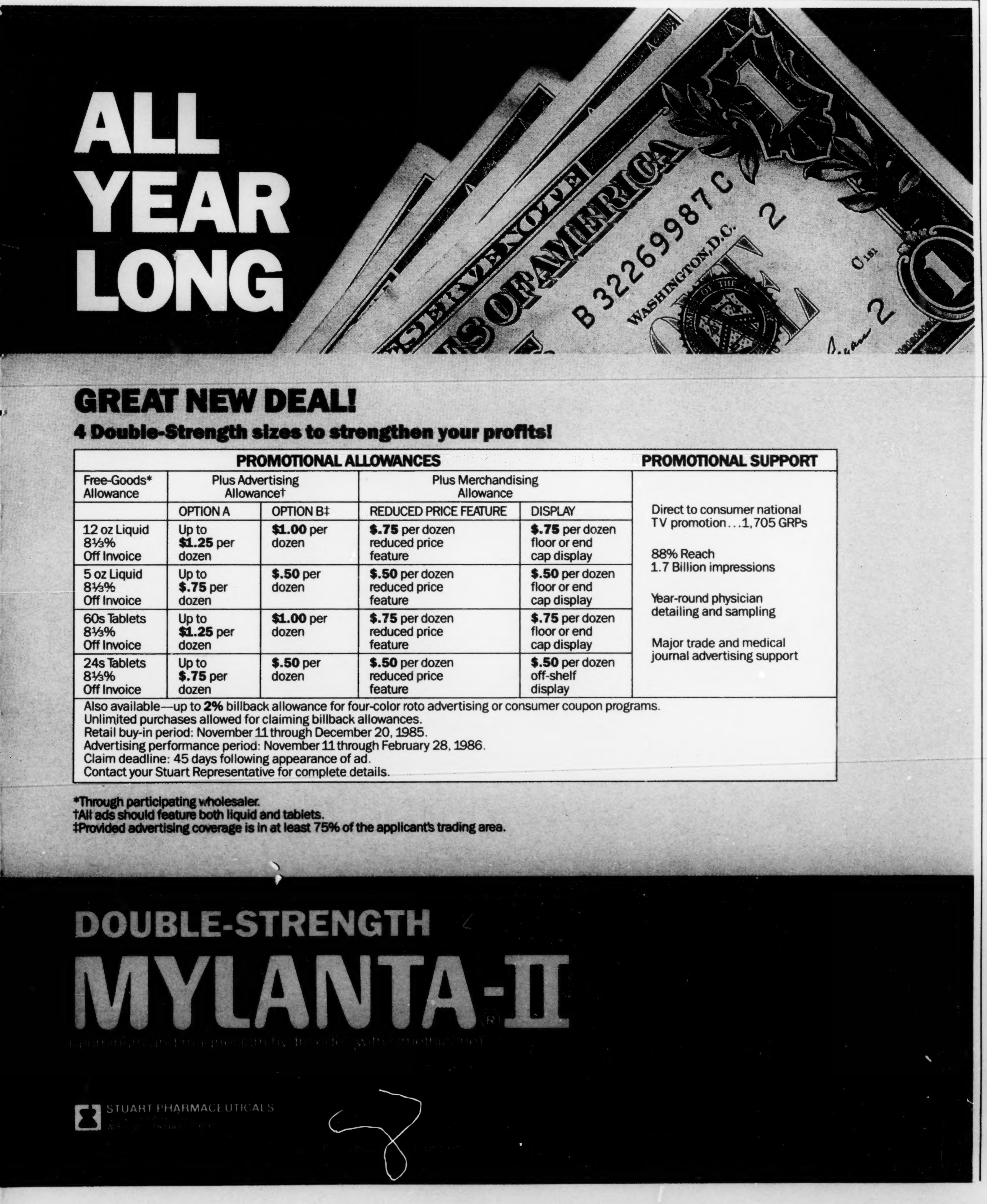
For Alco, which today is skewed more to the independents in its customer mix, Aitchison believes the best direction for growth would be toward a mix that is 40% independents, 30% chains and 30% hospitals.

Continued on page 46

Key operating statistics for the wholesale drug industry

	1978	1979	1980	1981	1982	1983	1984
Gross profit %	11.63%	11.30%	11.15%	11.07%	10.48%	9.77%	***9.39%***
Net profit %	1.09	1.13	1.32	1.35	1.41	1.37	***1.42***
Return on net worth	9.63	10.88	12.72	13.60	15.55	15.23	***15.34***
Total operating expenses as a % of net sales	9.74	9.24	8.53	8.30	7.79	7.21	***6.84***
Operating profit margin	1.89	2.06	2.62	2.74	2.68	2.56	***2.54***

Source: NWDA 1984 Operating Survey



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‡Provided advertising coverage is in at least 75% of the applicant's trading area.

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STUART PHARMACEUTICALS

Trends in the average wholesaler's product mix
(% of net sales)

	1977	1978	1979	1980	1981	1982	1983	1984
Pharmaceuticals	62.6%	62.8%	63.4%	63.6%	64.7%	65.3%	68.2%	***71.7%***
Proprietary	16.8	17.9	17.3	17.3	17.6	15.5	14.9	***13.1***
Toiletry	10.2	10.0	9.7	10.7	9.3	9.5	9.1	***8.4***
Sundry	8.0	7.9	8.3	7.0	6.7	7.9	6.3	***5.0***
Other	2.3	1.3	1.3	1.4	1.6	1.7	1.5	***1.8***

Source: NWDA 1984 operating survey

Wholesale drug sales

	Sales to drug stores	Sales to hospitals	Total sales
1984	$6.69B	$2.17B	**$12.52B**
1983	6.49	1.80	**11.90**
1982	5.72	1.39	**10.20**
1981	4.90	1.05	**8.60**

Source: NWDA 1984 Operating Survey

Continued from page 45

In their most pessimistic projections for the future, wholesalers feel that their independent market will shrink because of competitive factors that will destroy their ability to function effectively, that the chain market will dry up because the chains will expand their direct buying from manufacturers and step up their own distribution programs and that hospitals, currently the most price demanding segment of the business, will grow as a percentage of sales to the point where "we'd get killed," as Burt Olin, president of Humiston-Keeling, put it.

In their more optimistic projections, however, wholesalers believe that their continually enhanced marketing services and voluntary programs will act as buffers for independents and will give them the resources they need to compete against chains and the nontraditional retailers of pharmaceuticals including hospital retail outlets and HMO's.

They also feel that the chain segment of the business, including food and mass merchandise chains as well as drug chains, will not shrink but will continue to grow, at the very least as sources of secondary sales and at the very best as primary customers attracted to wholesalers for their "efficiencies of doing business"; and that growth in the hospital segment will be offset by volume gains and by other tradeoffs such as prepayments and higher line extensions.

"If a wholesaler can increase his volume; he's O.K.," says Joe Polastri of McKesson, "and volume has been building very well this year. The pharmaceutical business is up. Buying groups are coming up. The HMO's and PPO's are growing, but not as dramatically as we thought, and although they'll continue to grow, they won't displace retailers. Customers are going to still want the convenience of one stop shopping as they do today. Independents will still get their share."

"In the future, we're probably going to wind up with four or five major wholesalers," says Alco's Bob Aitchison, "but they'll still be strong regionals out there. Smaller wholesalers with the right marketing thrusts will continue to grow.

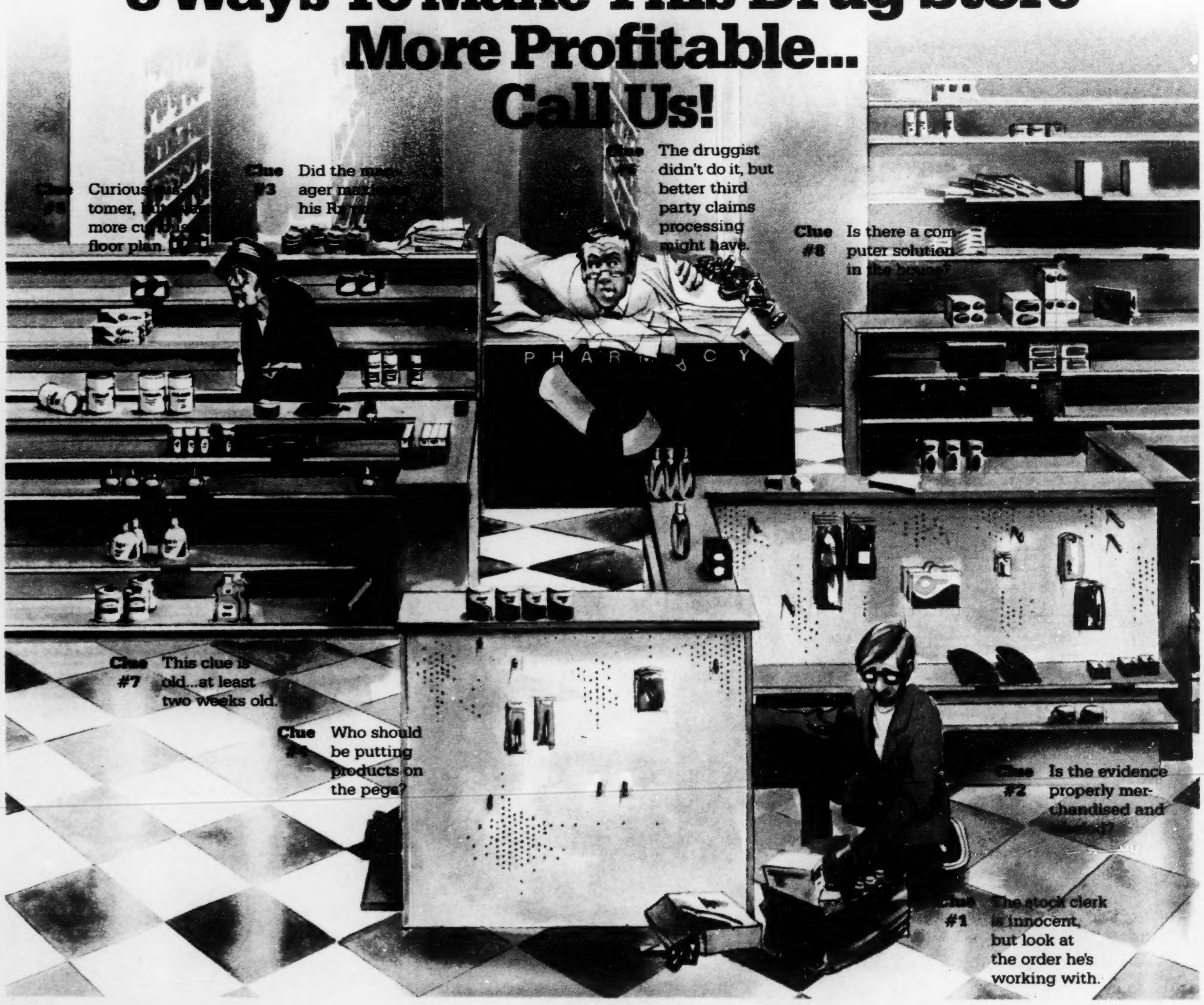
"The gross margin shrinking is coming to a point where it's leveling off," says Steve Westall of LAD. "The investments we've made in order entry and other automation technologies are going to continue to pay off."

"Wholesalers are also gaining access to other categories they never had before," says Judd Phelps of Ketchum, "hosiery, baby goods, small appliances. Many are doing what we're doing, moving into rack service merchandising with cosmetics, school supplies, stationery, etc.

"That business is growing at a good rate and I think it will continue."

"Once the industry has finished its period of consolidation and acquisition," says Bergen's Jack Fay, "the survivors will do fine. It's a question of establishing a market niche and solid customer relationships.

If You Can't Detect
8 Ways To Make This Drug Store
More Profitable...
Call Us!


Clue #5 Curious cus- tomer, but more cu... floor plan.
Clue #3 Did the man- ager ... his Rx ...
Clue #6 The druggist didn't do it, but better third party claims processing might have.
Clue #8 Is there a com- puter solution in the house?
PHARMACY
Clue #7 This clue is old...at least two weeks old.
Clue #4 Who should be putting products on the pegs?
Clue #2 Is the evidence properly mer- chandised and ...?
Clue #1 The stock clerk is innocent, but look at the order he's working with.

Answers to Clues:
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- **#2 Econoplan***–to make sure your shelves promote maximum sales.
- **#3 Econoprice***–for a complete prescription pricing program.
- **#4 COSMcK***–a full service merchandising system.
- **#5 Pharmacy Design**–to make sure your store's layout sells products.
- **#6 Econoclaim***–to speed third-party claims processing.
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- **#8 Pharmaserve***–for complete computer business solutions.

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New Alco Health zeroes in on drug sales

Wholesaler profile

VALLEY FORGE, Pa. — A $70 million public offering this past summer created Alco Health Services as a separate entity from its former parent, Alco Standard.

Alco Standard retains a 60% controlling interest in the company, which billed close to $1 billion during fiscal 1985.

According to Joe Churchman, president of the new corporation, the change was made so that Alco Health Services, the nation's fourth largest drug wholesaler, could become a pure health care wholesaler.

"It puts us in a better position to build strong earnings for our shareholders, and to compete for future acquisitions," said Churchman. "As a 'pure play' [Wall Street terminology for a nondiversified company] wholesale drug company, we are in a better position to negotiate for future acquisitions because we are a one-industry, one-service company, not a part of a diversified corporation."

Preliminary figures show that for fiscal 1985, which ended Sept. 30, the company had sales of about $960 million, up from $767 million for fiscal 1984.

Because of a mandatory 90-day "quiet period" following any public offering, further 1985 financial disclosures are not allowed by the company.

Currently, 71% of the company's business is pharmaceutical, with the rest coming from H&BA; cosmetics and fragrances; durable medical equipment and other home health care supplies; medical and surgical products; sundries; and other general merchandise.

About 58% of the company's business is with independent drug stores, 24% with hospitals, 12% with chain drug stores and 6% with mass merchandisers. Unlike many other large drug wholesalers, no individual service area is growing more rapidly than the others for Alco.

"There's been no major shift in our business," said Churchman. "That's because we have different salesmen serving each area. Each has the responsibility to increase business in that area. We don't have to slight one to concentrate on another."

Alco Health Services closed its year with 10 companies operating 20 distribution centers serving 23 states. Those companies are the Brown Drug Co.; Drug House; Duff Brothers; Geer Drug Co.; Kauffman Lattimer Co.; Rita Ann Distributors; Shawnee Evans Co.; Smith Higgins Co.; Strother Drug Co.; and the newest, Valdosta Drug Co.

The additional acquisition of Meyers & Co., of Tiffin, Ohio, has been announced, but not finalized.

In an industry that continues to consolidate by acquisition, Alco Health Services, according to Joe Churchman, will aggressively seek acquisitions, but will also concentrate on internal growth. "Right now, Alco Health Services is debt-free, and that puts us in a very good position to pursue both avenues of growth."

Of its 12,000 customers, 5,300 are independent drug stores. Of that figure, 15%, or 650, are members of Alco's voluntary, the Family Independent Program. According to Churchman, the three-year-old voluntary program will be greatly expanded and promoted during the next several years.

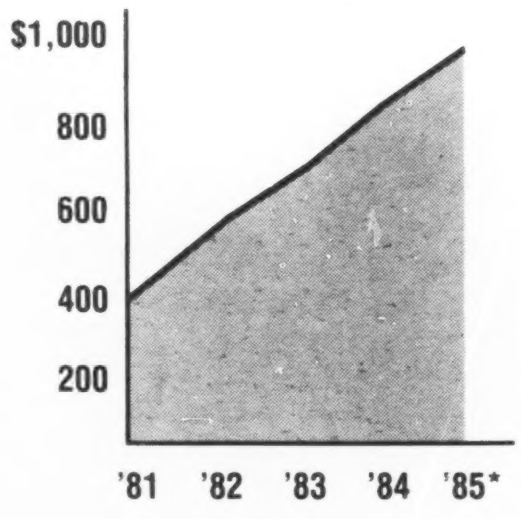
There will also be a continued emphasis on Alco's one-year-old "Total Home Health Care Program." Currently, about 300 retail drug stores are using this Alco service. "It's a total package," said Churchman. "The store provides nondurable goods and space. We provide the durable goods and all the other necessary services including third-party billing, delivery and service.

According to Churchman, the program has been developed so the small, neighborhood drug store can provide a complete home health care package for its customers, with very little expense or effort on its part.

Increased use of Alco's electronic order entry system last year brought the percentage of sales generated by this method to 75%.

Alco Health Services sales growth

(in millions)



Projected for year ended Sept. 30

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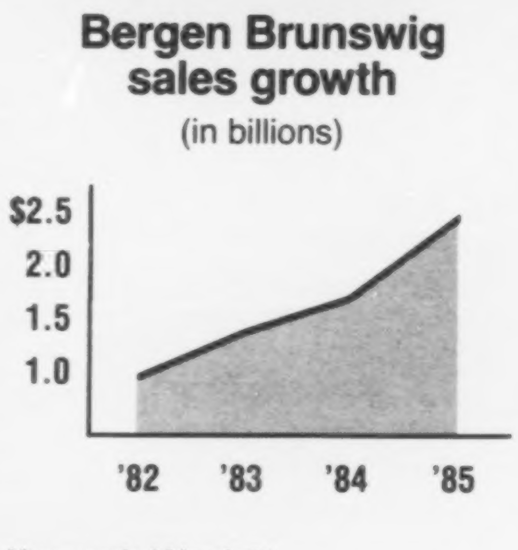
Bergen undaunted by collapse of merger

Wholesaler profile



Years ended March 31

LOS ANGELES — Some call it hard-nosed. Others call it reality-oriented. But regardless of the terminology, the response to a difficult problem is often a tersely worded edict: Take your losses and get out.

That's what Bergen Brunswig did when it aborted its proposed merger with National Intergroup, a steel production company which also owned savings and loans.

Going in, the prospects looked like a geometric leap in Bergen's acquisition program. Some said it was a marriage made-in-fiscal-heaven because National had assets of $400 million plus $300 million in tax carry-forwards which would have shielded Bergen's healthy profits.

Thus, on Oct. 4, 1984, Bergen and National Intergroup announced a definitive agreement to merge.

But in April 1985, a few days before the merger was to have been consummated, Bergen called it off because of the sharp deterioration of profits in the steel industry for the first quarter of 1985. For Bergen, the rose was off National Intergroup's cash reserve bloom. So Bergen took a write-down of $951,000 and decided to go it alone.

Neither Bergen nor its shareholders have regretted the decision.

Despite the write-down, Bergen managed to increase net profits 27% (from $18.3 million to $23.3 million) in the fiscal year ended Aug. 31, 1985. However, the company switched to LIFO during the third quarter of 1985. Had Bergen continued with FIFO, earnings would have increased 35%. Sales rose 43% (from $1.7 billion to $2.4 billion).

The National Intergroup episode was only a pause in Bergen's aggressive acquisition program. Prior to the National negotiations, Bergen had acquired the Allen Co., an Orlando, Fla.-based distributor of pharmaceuticals, as well as Synergex, West Coast drug and hospital supply wholesaler.

After the National Intergroup break-up, Bergen bought Davis Bros., Denver-based wholesaler with 70% of its sales in pharmaceuticals.

Bergen's most recent acquisition is Cibcoa Inc., a leading distributor of prerecorded video cassettes and consumer electronics, based in Northbrook, Ill.

Cibcoa will become part of Commtron, a Bergen subsidiary. Emil Martini Jr., chairman and ceo of Bergen, predicts that Commtron, as the result of Cibcoa, would reach revenues of $500 million in fiscal 1986.

Martini perceived the potential of consumer electronics in drug stores several years ago and that prompted Bergen to buy Commtron in 1982. At that time he told *Drug Store News:* "The company's most dramatic growth will come from consumer electronics."

The acquisition proved to be a 10-strike. In fiscal 1984 Commtron's revenues rose 72% (from $122.2 million to $210.4 million). In fiscal 1985, sales rose 49% to $314 million, and accounted for 13% of Bergen's fiscal 1985 revenues.

Another area of growth for Bergen is hospitals, where sales have gone from 6% of the company's sales in 1977 to 30% today. A plum in Bergen's cap was the signing of a three and a half year contract with Humana, with revenues expected to exceed $200 million over the life of the contract. Humana, which operates 82 for-profit hospitals in 22 states, will buy 75% of its needs from Bergen, with the initial mix being two-thirds pharmaceuticals and one-third supplies.

Bergen may not have been the first drug wholesaler to maximize the capabilities of the computer, but it has certainly done the most effective job of selling the concept—especially electronic-order entry.

As for the future, Martini projects an annual 25% rate of growth for the next five years, with 15% expected to come internally and 10% from acquisitions.

Martini is just as upbeat on the future of the wholesale drug industry. "Given unusually strong growth in hospital sales and new telecommunications links being forged between wholesalers and manufacturers, we believe that the electronic network that tied wholesalers to customers added 20 points to the wholesaler's market share (from 45% to 65%, from 1973-1985).

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Contract swells FoxMeyer hospital sales

Wholesaler profile

AURORA, Colo. — FoxMeyer, the country's third largest drug wholesaler, boosted its hospital business significantly by signing a major supply contract with the Voluntary Hospitals of America.

Under the contract, FoxMeyer will provide medical and surgical supplies to VHA hospitals in many states west of the Mississippi, but also including Illinois and Michigan. VHA, which includes some of the most prestigious teaching hospitals in the country, is the largest nonprofit hospital group in the country.

FoxMeyer estimates that the new contract will account for about $125 million in the first year, or about 10% of the corporation's total projected revenues of $1.25 billion for the fiscal year ending March 31, 1986.

Bill Tauscher, chairman, says the addition of the VHA hospitals to FoxMeyer's distribution network could bring FoxMeyer's total hospital supply business to as much as $250 million next year.

FoxMeyer's expansion in the hospital business was also hastened last year by the acquisition of Devco Medical Industries, a California distributor of medical and surgical supplies. In addition to Devco, FoxMeyer also has medical-surgical distribution centers in Denver, Oklahoma City, Kansas City and St. Louis.

Tauscher points out that FoxMeyer was not even in the hospital supply business a little more than two years ago.

Hospital supply is just one of the areas in which FoxMeyer has moved with a whirlwind swiftness that has impressed Wall Street analysts and earned the respect of competitors. The company has also racked up strong gains in drug distribution, which accounted for 69% of its $717 million in fiscal 1985 revenues, in pharmacy computer sales and in its Health Mart franchise drug store program.

Through a combination of fast-paced internal growth and a series of opportunistic acquisitions, FoxMeyer has increased its revenues by more than two and a half times from fiscal 1984 to the current fiscal year's projection. At the same time it has fulfilled one of it main strategic goals: aggressive market share growth.

And by moving quickly to assimilate acquired companies, it has achieved a second strategic aim—economies of scale and more efficient operations. For example, in a major warehouse consolidation last December, FoxMeyer replaced four outdated distribution centers in Memphis, Baton Rouge, New Orleans and Pensacola, Fla., totaling 180,000 sq. ft., with one 80,000-sq.-ft. state-of-the-art facility in Slidell, La.

FoxMeyer's biggest recent acquisition was McPike.

The McPike acquisition was only the latest and biggest of a series of buyouts, which also included the Louisiana-based $100 million I. L. Lyons (April 1984) and the Wisconsin-based, $80 million Yahr-Lange (November 1984). Last month FoxMeyer added Davis Wholesale Drug Co. of Baton Rouge (see story below).

Davis buy is third in one year

AURORA, Colo. — FoxMeyer has purchased Davis Wholesale Drug of Baton Rouge, La., which services drug retailers in Louisiana and Mississippi.

The transaction marks FoxMeyer's third acquisition in less than a year. The other two acquisitions were: McPike, headquartered in Kansas City, Mo., and Yahr-Lange in Elm Grove, Wis.

Davis Wholesale Drug, which has an annual sales volume of $25 million, will be serviced out of FoxMeyer's new supercenter in Slidell, La., 90 miles away.

Richard Bard, president and coo of FoxMeyer, told *Drug Store News* that servicing out of Slidell will result in economies of scale for FoxMeyer. "By feeding Davis' distribution into our present system, savings will result because we will need no separate building or separate inventory to maintain. In addition, we will reduce trucking costs."

Bard also noted that although Slidell is only 75,000 sq. ft., "it can handle up to $200 million in volume."

FoxMeyer operates in 22 states, from Ohio to Wyoming (east/west) and from Wisconsin to Texas (north/south).

FoxMeyer's sales in the fiscal year ending March 1986 are running at the annual rate of $1.2 billion. This compares with $717 million in fiscal 1985.

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- LOS ANGELES, CA Dec. 13
- MIAMI, FL Jan. 21
- FT. LAUDERDALE, FL Jan. 22
- WEST PALM BEACH, FL Jan. 23
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Profits reflect change in McKesson focus

Wholesaler profile

SAN FRANCISCO — Based strictly on the figures, "lackluster" best describes McKesson's earnings over the past three years. In fiscal 1985 (ended March 31, 1985), while corporate sales rose 15% to $4.9 billion, net income—reflecting write-offs of discontinued operations—dropped 5.4%.

But the figures obscure the evolutionary changes taking place at the nation's No. 1 drug wholesaler because McKesson is a company in transition.

It started late in 1982 when McKesson's top command decided to withdraw from the food and real estate business and to consolidate the corporation's base in distribution. As a result, well over 40% of the corporation's assets were divested in the past three years.

The rationale for these divestitures, according to Neal Harlan, chairman and ceo, is "not because the businesses they represented were losing money, but we believed their potential growth was not sufficient to provide the kind of return we were willing to accept."

And what kind of return was that? A return on equity of 15% to 17% by the end of the 80's.

The centerpiece of McKesson's realignment is the Drug & Health Care Group—and justifiably so. While the corporation's net income has been flat, Drug & Health Group's revenues, profits, and identifiable assets were all up 17% to 18%. In fiscal 1985, for example, revenues rose 18% to $2.9 billion, and operating profit was up 17% to $70.2 million.

In the first quarter of fiscal 1986, Drug & Health Care Group again led the way—a 29% increase in revenues and a 28% gain in operating profit.

That is why McKesson is putting over 50% of its total capital investment into Drug & Health Care which accounts for 40% of the corporation's operating profit.

Few in the industry foresaw the swiftness of the 102-year-old corporation's change of focus. The opening salvo was fired in fiscal 1984 when McKesson acquired Lone Star Veterinary Supply Co. At about the same time, McKesson, acquired 3PM, developer of computer systems for pharmacies. A year later, Zee Medical was acquired.

Next came Rawson Drug and Sundry, leading West Coast service merchandisers of H&BA and nonfoods to supermarkets. Last December, McKesson annexed Johnson Drug of Tampa.

At the beginning of fiscal 1986, the pace quickened. In a period of less than six weeks, McKesson completed three acquisitions: Spectro Industries, Mass Merchandisers, and S-P Drug.

All three are heavyweights in their fields. Spectro is the leading wholesale drug distributor in the middle Atlantic states, with a strong presence in New England, as well as in the Philadelphia-Baltimore-Washington D.C. area.

S-P Drug is the leading wholesaler in the adjoining New York-New Jersey-Connecticut region.

Mass Merchandisers—whose customers are primarily supermarkets—distributes 16,000 H&BA and general merchandise items to 11,000 retailers in 32 states. By linking Mass Merchandisers to Rawson, McKesson has created a $500 million a year service merchandising operation spanning most of the nation's major markets.

To service its growing distribution base, McKesson is investing $37 million in six state-of-the-art distribution centers, each 275,000-300,000 sq. ft. This follows the construction of 12 new distribution centers over the past five years at a cost of $41 million.

To create additional value across all operations, McKesson has come up with a "two-plus-two-equals-five" management concept.

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Rx/OTC news

PHARMACY

Cardiovascular drugs lead top 100 Rx sales

Top 100 Rx

Cardiovascular drugs are once again the undisputed champs among the top 100 prescription drugs dispensed in the U.S.

According to *Drug Store News*' 2nd Annual Top 100 Rx Product Movement survey, compiled with the help of Decision Data, a North Arlington, Tex.-based pharmaceutical marketing research firm, cardiovascular drugs were the highest volume category as well as the most profitable for pharmacists.

The survey showed that cardiovascular drugs comprised 16% of the top 100 prescriptions based on unit movement and 18% based on dollar margin.

But the category's heaviest concentration was on the dollar volume list where it accounted for almost one-third (29%) of the top 100 prescription drug products.

While there is much crossover of indications between cardiovascular drugs and diuretics because of the latter's ability to lower blood pressure, the diuretic category stands alone in this year's study. There are many patients who take diuretics who do not have heart disease. Diuretic prescriptions accounted for 9% of the top 100 dispensed.

Other heavy hitters include antibiotics and analgesics.

Antibiotic products accounted for 13% of the top 100 drug products, while analgesics captured an 11% share. In dollar volume, antibiotics and analgesics both accounted for 9% of the top 100 Rx drugs. They also accounted for an equal share of the top 100 profit-producing drugs.

Antiarthritics, with 10 drugs in the top 100 unit list, had greater success in the dollar volume and margin rangings with 14 and 13 positions, respectively.

In the cardiovascular category, there were "regulars" like Lanoxin, Aldomet and Inderal, as well as some "first-timers" like Nitrostat, Catapres and Minipress.

One newcomer to make a place for itself in all three criteria (number of Rx's, dollar volume and dollar margin), was Merrell-Dow's hugely successful nicotine chewing gum, Nicorette.

Cardiovasculars

Those drugs used to regulate the heart beat and keep it strong were still among the most popular drugs dispensed.

Burroughs-Wellcome's

Continued on page 64

Top 10 fastest-moving cardiovascular drugs

(# of scripts)

	Top 100 rank
1. Aldomet tabs 250mg*	10
2. Inderal tabs 40mg*	13
3. Inderal tabs 20mg*	15
4. Inderal tabs 10mg*	24
5. Lanoxin tabs 0.25mg	7
6. Lanoxin tabs 0.125mg	8
7. Tenormin tabs 50mg	11
8. Lopressor tabs 50mg	18
9. Procardia caps 10mg	21
10. Nitrostat tabs 0.4mg	64

*=study was done before patent expiration

Source: Decision Data

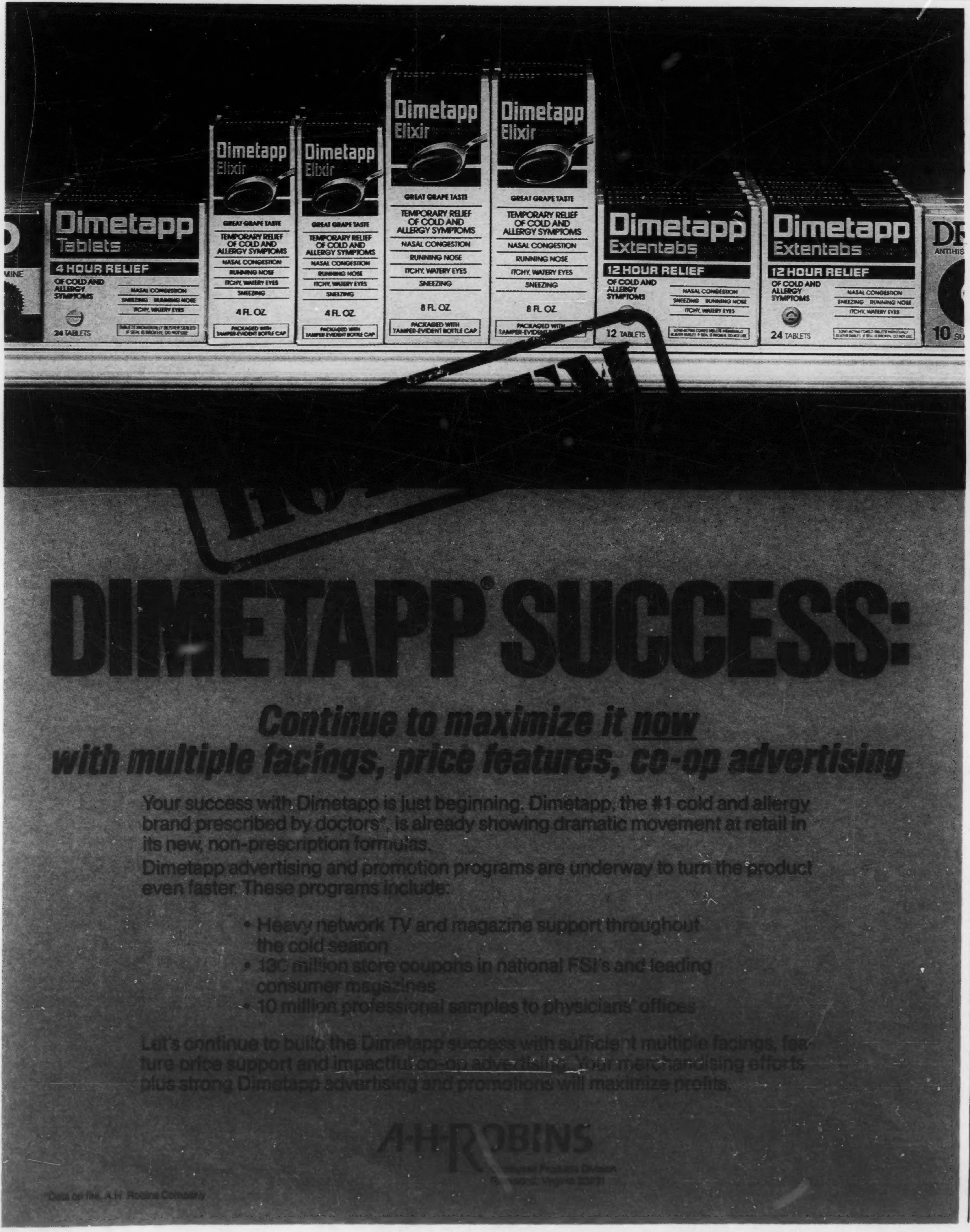
Top 10 most profitable cardiovascular drugs

(gross profit $)

	Top 100 rank
1. Aldomet tabs 250mg*	17
2. Inderal tabs 40mg*	21
3. Inderal tabs 20mg*	23
4. Inderal tabs 10mg*	37
5. Tenormin tabs 50mg	8
6. Lanoxin tabs 0.125mg	12
7. Lanoxin tabs 0.25mg	14
8. Procardia caps 10mg	19
9. Lopressor tabs 50mg	25
10. Minipress caps 1mg	69

*=study was done before patent expiration

Source: Decision Data



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Antibiotics, analgesics excel in scripts filled

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Lanoxin brand of digoxin was the most widely dispensed cardiovascular drug. Two of the most popular strengths made the list, 0.25mg and 0.125mg.

While Lanoxin is widely used as a routine cardiovascular maintenance drug by many physicians because of its effectiveness and wide margin of safety, it is relatively inexpensive and does not provide a sizable dollar volume for the pharmacist. In fact, many pharmacists use Lanoxin as their generic brand of digoxin because of its low price.

Of the 29 cardiovascular drugs that made the top 100 listing based on dollar volume, Lanoxin 0.25mg placed 21st and Lanoxin 0.125mg 24th. Because pharmacists are working off a low dollar cost, they are able to make a decent profit margin without charging excessively for the drug. Based on profit margin, the Lanoxin products grabbed the second and third positions out of the eight cardiovascular drugs listed.

Among the beta blockers, Ayerst's Inderal is the blockbuster. Inderal is available in six strengths—10mg, 20mg, 40mg, 60mg, 80mg and 90mg—but half made it into the list of cardiovascular drugs (10mg, 20mg, 40mg). These three strengths accounted for 19% of the cardiovascular drugs in the top 100, based on number of prescriptions dispensed.

Only one nitroglycerin product made the top 100, Parke Davis' Nitrostat.

Top 100 Rx

Antibiotics

Antibiotics accounted for the second best productivity ratings based on number of prescriptions filled.

Because antibiotics are generally not refilled as frequently as other medications, many pharmacists charge more.

Consequently, the antibiotic category was one of the highest profit producers among the top 100 prescription products.

One newcomer to the category was Lilly's Ceclor capsules 250mg, just making the top 100 list at position 100 and ranking 13th within the antibiotic category.

Analgesics

Tylenol with codeine No. 3 and Darvocet-N 100mg dominated the analgesic category by capturing the first and second slots, respectively. Both products contain the nonaspirin pain reliever acetaminophen.

Topping the list, McNeil's Tylenol with codeine No. 3,

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Top 10 fastest-moving antibiotic drugs
(# of scripts)

	Top 100 rank
1. Keflex caps 250mg	16
2. E.E.S. 400 filmtabs	22
3. Amoxil susp 250mg/5ml 100ml	26
4. Amoxil caps 250mg	30
5. Keflex caps 500mg	35
6. Amoxil susp 125mg/5ml 100ml	36
7. Bactrim DS	38
8. Septra DS	51
9. Eryc caps 250mg	63
10. E-Mycin tabs 333mg	75

Source: Decision Data

Top 10 most profitable antibiotic drugs
(gross profit $)

	Top 100 rank
1. Keflex caps 250mg	9
2. E.E.S. 400 filmtabs	13
3. Keflex caps 500mg	15
4. Bactrim DS	29
5. Amoxil susp 250mg/5ml	32
6. Amoxil caps 250mg	38
7. Septra DS	41
8. Amoxil susp 125mg/5ml	48
9. Eryc caps 250mg	52
10. Ceclor caps 250mg	68

Source: Decision Data

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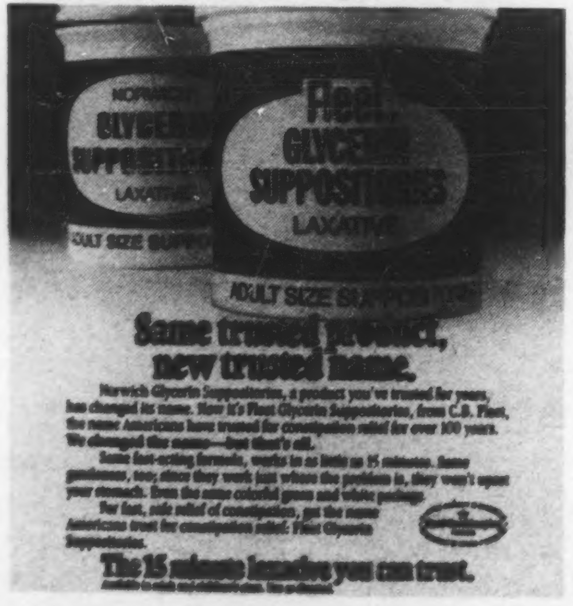

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Upjohn tranquilizers leap to higher positions

Continued from page 64

with its double-barrel codeine and acetaminophen analgesic action, propelled that product to the No. 2 slot among the top 100.

In terms of profit margins, Tylenol with codeine edged out Darvocet-N within the analgesic category, taking the No. 1 and 2 positions, respectively, and 2 and 3 among the top 100 drugs listed.

Top 10 fastest-moving analgesic drugs
(# of scripts)

	Top 100 rank
1. Tylenol w/ codeine #3 tabs	2
2. Darvocet-N tabs 100mg	5
3. Tylenol w/ codeine #4 tabs	61
4. Percodan tabs	62
5. Empirin w/ codeine #3 tabs	66
6. Fiorinal w/ codeine #3 caps	81
7. Synalgos-DC caps	83
8. Lomotil tabs 2.5mg	87
9. Fiorinal tabs	88
10. Parafon Forte tabs	91

Source: Decision Data

Top 10 most profitable analgesic drugs
(gross profit $)

	Top 100 rank
1. Tylenol w/ codeine #3 tabs	2
2. Darvocet-N tabs 100mg	3
3. Vicodin tabs	28
4. Percodan tabs	42
5. Tylenol w/ codeine #4 tabs	44
6. Fiorinal w/ codeine #3 caps	59
7. Parafon Forte tabs	60
8. Empirin w/ codeine tabs #3	61
9. Synalgos DC caps	64
10. Lomotil tabs	

Source: Decision Data

Top 100 Rx

Birth control

Oral contraceptives manufactured by Ortho Pharmaceuticals and Wyeth Laboratories dominated the birth control category based on number of prescriptions dispensed.

Because birth control tablets are highly competitive, many pharmacists sell the tablets at little or no profit. This was verified by the survey. None of the birth control products made it into the top 100 prescription product listing based on dollar margins.

None of the new triphasic oral contraceptives appeared on the list primarily because they were just introduced last year. But market reports show the triphasics impacting on the market favorably.

Antiulcer

The race for market share in the antiulcer category between SKF's Tagamet and Glaxo's Zantac was once again won by the SKF product as the No. 1 antiulcer product.

Introduced in mid-1983, Zantac has made some strong inroads into this market. It has become a major competitor for Tagamet as well as a major mover within the top 100 prescription product listing.

Last year, Zantac was the 63rd best moving prescription product within the top 100. This year, Zantac moved up 40 notches to settle in as the 23rd most dispensed product. The story is much the same when compared to the other products based on dollar volume. Last year, Zantac ranked 35 in the top 100: This year it ranks an impressive fourth.

Tranquilizers and sedatives

Valium 5mg tablets managed to hold on as the No. 1 tranquilizer in number ~~of pre~~scriptions, dollar sales and gross profit dollars, although it has lost some of its footing in the total listing of the 100 highest volume drugs. Valium dropped one slot on that list to the No. 5 position. With the drug recently going off patent, it is expected to slip even further.

One of the most dramatic changes in the tranquilizer market came from Upjohn with two of its hot new products, Xanax and Halcion.

Xanax 0.5mg jumped two positions within the tranquilizer category to land as the fourth fastest moving tranquilizer. But in the overall top 100 listing, Xanax 0.5mg took a quantum leap over last year's 94th position to settle as the 47th fastest moving drug.

It was much the same story with Xanax 0.5mg on the dollar volume list. Last year, Xanax ranked 78th in the highest volume category. This year the drug jumped 45 places to No. 33. Under the most profitable listing, Xanax 0.5mg jumped 31 positions, becoming the 36th most profitable drug among the top 100.

Most productive Rx drug categories
(number of products in Top 100)

	# of products in Top 100 (scripts)	# of products in Top 100 ($ sales)	# of products in Top 100 (gross profit $)
Antibiotics	13	9	13
Antiarthritics	10	14	13
Antiepileptics	1	1	1
Antiglaucoma	1	1	1
Analgesics	11	9	13
Antiulcer	4	4	3
Antiasthmatics	4	4	4
Birth Control	7	4	1
Cardiovasculars	16	29	18
Cough/cold	5	—	5
Diuretics	9	6	9
Hormones	4	4	4
Other	1	4	1
Oral Hypoglycemics	2	3	2
Sedatives	3	1	2
Tranquilizers	8	6	9
Vaginals	1	1	1

Source: Decision Data

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